

PROCEEDINGS
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[Number 2

EUROPE AND ASIA: THE CASES OF
GERMANY AND JAPAN

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE ANNUAL
MEETING OF THE ACADEMY OF POLITICAL SCIENCE
DECEMBER 8, 1954

EDITED BY
DUMAS MALONE

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PREFACE

WHETHER Europe is a more vital area than Asia in the world-wide struggle against imperialistic communism, or Asia is more vital than Europe, there can be no question that both are supremely important. Nor can there be any possible doubt of the crucial nature of the problems of Germany in one area and of Japan in the other. At the fall meeting of the Academy of Political Science, the emphasis in the morning session was on Japan, and in the afternoon on Germany, while the problems of both continents were discussed in more general terms in the evening. All of the discussions were broad-gauged, because of the character and stature of the scholars and public men who engaged in them.

We present these PROCEEDINGS in the hope and belief that they will be welcomed by a larger audience, and at the same time we express the sincere thanks of the officers of the Academy to these participants for their illuminating contributions and wise reflections.

CONTENTS

	PAGE
Preface.....	iii
PART I: ECONOMIC AND POLITICAL POSITION OF JAPAN	
<i>Peffer, Nathaniel</i> Introduction.....	1
<i>Reubens, Edwin P.</i> Japan's Capacity for Economic Survival.....	2
	Discussion: Japan's Capacity for Economic Survival..... 16
<i>Overton, Douglas W.</i> The Political Structure of Japan—Democratic or Paternalistic....	19
	Discussion: The Political Structure of Japan..... 27
<i>Borton, Hugh</i> The Relation of Japan to the Continent: China and Southeast Asia.....	29
	Discussion: Economic and Political Position of Japan..... 38
PART II: ECONOMIC AND POLITICAL POSITION OF GERMANY	
<i>Stern, Fritz</i> Introduction.....	46
<i>Reich, Nathan</i> Germany's Labor and Economic Recovery.....	47
<i>Mendershausen, Horst</i> Impact of Germany's Economic Recovery on World Markets...	65
	Discussion: Economic Position of Germany..... 84
<i>Holborn, Hajo</i> Germany's Rôle in the Defense of Western Europe.....	86
	Discussion: Economic and Political Position of Germany..... 98
PART III: THE UNITED STATES LOOKS EAST AND WEST	
<i>Kirk, Grayson</i> Introduction.....	101
<i>Donovan, William J.</i> The Asiatic Question and Its Relation to Europe.....	105
<i>Mansfield, Michael J.</i> Germany and the Future of Europe.....	113

PART I

ECONOMIC AND POLITICAL POSITION OF JAPAN

INTRODUCTION

NATHANIEL PEFFER, *Presiding*

Professor of International Relations, Columbia University

LADIES AND GENTLEMEN: This is the first session of this semi-annual meeting, the subject being, as you know, "Europe and Asia: The Cases of Germany and Japan".

I shall intrude for only one minute. We all know and it has been long said that peace has its victories no less than war. That can be amended in our time; peace has its problems no less than war. It can be further amended in our progressive time. There was a time when our troubles in a war were over with the defeat of the enemy. We now have to worry as much about our defeated enemy as we did before we defeated him, or while defeating him. Germany surrendered, Japan surrendered. We were triumphant and presumably happy. We are still triumphant and quite unhappy. Both are as perplexing to us now as they were, say, in 1943. It is a paradox of our time that first we seek to exterminate an enemy, and then we proceed to save him—not out of any excessive virtue, but because we have to, the world being as it is.

Well, we are doing so now on both continents, and that raises problems as difficult as the year of Pearl Harbor. And while not quite as expensive, they are expensive. We shall discuss those problems this morning and this afternoon. This morning we discuss Japan. Our first speaker is Mr. Edwin P. Reubens, Assistant Professor of Economics in City College. He has an A.B. from City College, and a Ph.D. from Columbia. Mr. Reubens was for five years Assistant Professor at Cornell, and in summer at George Washington and Columbia. He participated in the United States Strategic Bombing Report on Japanese Wartime Standards of Living, and has other publications of which some of you surely will know. I now present Mr. Reubens!

JAPAN'S CAPACITY FOR ECONOMIC SURVIVAL

EDWIN P. REUBENS

Assistant Professor of Economics, City College of New York

MANY Americans were shocked last August when the Japanese Ambassador issued an appeal for a large aid program to stave off economic collapse in his country. Mr. Yoshida's visit in November, and the subsequent fall of his government, have underscored the startling issue. Many Americans have assumed that the Japanese economy was set on its feet by the Allied Occupation, and that it has started to walk again, and even to run, and will make its own way in the future. Instances of growing Japanese competition in our own markets and abroad have been taken as evidence of Japan's economic strength. Appeals for aid are treated by some of our fellow citizens as only another effort by foreigners to get something for nothing from Uncle Sam.

I would like to suggest that these American assumptions are partly false and largely short-sighted, and are dangerously misleading with regard to policy. There are three main points which I would like to stress. They represent my assessment of the Japanese economic position, the measures which are within reach of the Japanese themselves, and the alternatives which lie before our own country and our allies in the free world:

1. The first proposition is that recent recovery in Japan has been impressive, and the present economic situation is tolerable; but prospective conditions for the next five to ten years are adverse, and may become calamitous. Since 1945 the Japanese economy has enjoyed certain special supports and shelters, which concealed the basic weaknesses of the structure, in both domestic and international relations. The present time is a dividing line, beyond which the special supports and shelters are due to dwindle away, while the handicaps are likely to remain and even to multiply.
2. The second proposition is that the measures whereby the Japanese can help themselves are important but are seriously limited. The financial situation calls for deflation, but an ade-

quate program would lead to bankruptcies, unemployment and social unrest. In productive structure, Japan needs to extend her interrupted industrialization, but an adequate program would require more real capital formation than the people are able to afford or willing to permit.

3. The third proposition, which follows from the two preceding, is that the Japanese economy will probably be dependent, during the next five to ten years, upon outside assistance of some kind. This assistance will gradually become urgent if Japan's economic circumstances are allowed to deteriorate, and if Japan becomes one of the more critical areas in the cold war. Sooner or later such assistance will have to be of the direct-aid type, unless private international investment comes forward in substantial amount, and unless the free nations are willing to accept a vastly larger volume of Japanese goods despite certain hardships which those imports would impose on their own economies.

It is not always remembered that Japan's economic life has been precarious over the whole century since her modernization began. Driven by internal pressures and ambitions, the Japanese people advanced by repeatedly reaching out beyond their current grasp, and at times the entire process hung, so to speak, by a thread of silk. During the last quarter of the nineteenth century Japan supported her growing population and financed her increasing consumption and capital formation almost entirely from her own resources, net foreign capital inflow being virtually zero. By the turn of the present century, however, Japan became dependent on foreign capital as she moved into the status she has occupied ever since; that is, importing large—and increasing—quantities of primary commodities and paying for them by exporting fabricated goods, and thus living off the "value-added". This has always been an insecure way of life, forever at the mercy of the international markets in the short run, and of changes in comparative advantage in the longer run. But Japan has had little alternative; and in fact—like her Western analogue, Britain—Japan has in the past progressed under such a régime.

Here was an economy not only dependent upon imports of raw materials for her industries but also increasingly dependent upon imports of food for her rapidly growing population, and

far behind other industrial nations in productive capacity, in economic organization, and in access to markets. To cope with these adverse conditions, the Japanese made strenuous use of their available resources, cultural as well as material. In popular consumption, the persistence of traditional patterns and a modest trend of expectations made it possible for much of the increment in national product to flow into capital formation.¹ Foreign capital was not the chief support of Japan's progress; but it was nevertheless a vital support, frequently substantial in relative amount, and at times a strategic factor.²

In other respects besides consumption and investment, the Japanese also made the most of the limited means available to them, unhappily often proceeding along lines abhorrent to Western democratic standards. In economic organization, where there was a tradition of group action rather than individualism, free competition and *laissez faire*, the Japanese developed the *Zaibatsu* system for management and the export cartel for foreign trade; and these devices were abetted by paternalism

¹ The expansion of industrial and service employment did no more than absorb the increments in population, without reducing the already severe overcrowding on the land, and without reducing the high rural birth rate while the death rate continued to fall. But the new facilities, concentrated in simple machine-processing of staple goods, and in marginal industries like silk with low overhead requirements, succeeded in raising the per capita productivity of the nation and in underselling competing nations.

² After 1895, when the combined demands of accelerated industrialization and armament expansion began to exceed domestic capabilities, the Japanese government sought foreign capital, which it was able to obtain in long-term loans from private foreign investors, loans of general-purpose type not tied to any specific project and thus ultimately available to close the aggregate gap in the balance of payments. During the peak period of foreign borrowing, 1904-1913, the loans provided the national government with roughly one sixth of its revenues from all sources, while the whole net capital inflow made possible imports in excess of exports to the amount of one sixth of total imports (both goods and services), and finally the net real foreign contribution (taken net of debt service) amounted to some 12 per cent of the entire net real capital formation in Japan during this period. The import excess turned into a large export surplus during World War I, but the 1920's brought renewed dependence upon foreign capital, albeit on a reduced scale compared to the pre-war pattern. Net capital inflow ceased entirely after 1930. For details of these calculations, see the writer's chapter, "Foreign Capital and Domestic Development in Japan", in the forthcoming volume *Economic Growth in Selected Areas*, to be published in 1955 by the Social Science Research Council and Duke University Press.

(anti-union type) in labor relations, and by aggressive imperialist moves in overseas territories. In penetrating foreign markets, which even in the 1930's were not rigidly shut off by political obstacles or by the economic barriers of tariffs, quotas and currency restrictions, the Japanese concentrated on low-priced goods and services (often shoddy quality, to be sure, but suitable in price and type to the low-income Oriental consumer); and they used patient and ingenious salesmanship, and they bought their own requirements in the cheapest source of supply. In many external aspects, this pre-war Japanese pattern conformed fairly closely to the classical economic model of national specialization and maximum international competition.

The post-war situation is far more complex, and shows a marked contrast with the pre-war decades for Japan as for most of the world. The physical aspects are the most prominent. During the war some 30 per cent of Japan's industrial capacity was destroyed or dismantled, with much greater than average shares lost in particular industries, ranging up to 80 per cent in the important fields of shipping and cotton textiles. However, much of this capacity has already been rebuilt, and in some fields extended, so that in 1953 Japanese industry was able actually to produce 20 per cent more than just before the war, and over 60 per cent more than in 1934-36.³ A more persistent problem is obsolescence, due to inability to keep up with technological advance during and immediately after the war, with the effect that much of the operable plant is comparatively inefficient.⁴ Some native resources, such as iron ore and copper, which were relatively important in past decades have now be-

³ Index of industrial activity, from United Nations, *Monthly Bulletin of Statistics*, and Japanese Ministry of Finance, *General Survey of the Japanese Economy* (Sept. 1954), Table 56, Appendix, p. 100.

⁴ According to the Japanese Ministry of International Trade and Industry, 60 per cent of the facilities in the caustic soda industry, for example, are more than 20 years old; and facilities are likewise superannuated in 80 per cent of cement capacity, 35 per cent in machine tool manufacture, 36 per cent in open hearth steel, and 80 per cent in power generation; see John D. Rockefeller, 3rd, "Japan Tackles Her Problems", a thoughtful and ultimately optimistic view of Japan's situation, in *Foreign Affairs*, July 1954. The foregoing figures are generally confirmed, except for power generation, by the report of the Economic Counsel Board, in *General Survey of the Japanese Economy*, Table 27, Appendix, pp. 62-63.

come grossly inadequate, and can be extracted only at high and rising costs; this is the result of years of peacetime use capped by headlong exploitation during the war. The area of arable land amounts to only 16 per cent of Japan's generally rocky terrain, and cultivation has already been pushed high up the hillsides by laborious terracing and irrigation. Intensive cultivation has already been carried so far that any further steps would be very costly and probably would require subsidies. Meanwhile the Japanese population is still growing by more than one million persons a year. Nearly half the working population of almost 40 million is still engaged in agriculture, lumbering and fishing;⁵ and the national income per capita is less than one tenth of the United States figure.⁶ Japan still is, in important degree, one of the underdeveloped countries.

Despite these limitations, Japan has substantial technologic potentials for the future. One important line is adaptation to the special needs of the slowly progressing economies of the Far East and other retarded areas of the world. In particular, Japan can offer capital goods of simple and inexpensive design which can make a great contribution to development in those areas; and Japan can accompany these goods with her own technical know-how and managerial skill drawn from experience under comparable conditions. The field of small-scale industry using simple machine tools offers one of the outstanding possibilities along these lines; negotiations with India and Pakistan have only begun to explore this possibility. Within Japan's own borders, there is room, according to government plans, for some further extension and improvement of agriculture by drainage, irrigation and double-cropping, so as to reduce dependence upon food imports. There also is room for further development of hydroelectric potentials, so as to reduce dependence upon imported fuels. Another step toward greater

⁵ The share of these "primary activities" was 45.3 per cent in 1953, according to the Japanese Economic Counsel Board, *Economic Survey of Japan (1953-1954)* (published by The Nippon Times, Ltd., Tokyo, July 1954), Table 100, p. 124.

⁶ According to *General Survey of the Japanese Economy*, Table 69, the per capita national income in 1953 was \$188.40 for Japan, compared to \$1,927 for the United States. However, the conversion from yen to dollars was made at the official exchange rate of 360 : 1, which considerably overstates the real purchasing power of the yen.

self-sufficiency would be further development of synthetic products and highly fabricated goods which have a relatively small import-content. These are only a few illustrations of promising physical and technologic projects.

The obstacles in the way of implementing such projects are economic, social and political. These obstacles are more subtle than the technologic features, and harder to define. The chief problems are inflation and dislocation at home, together with deficits in the international accounts and new foreign obligations. Among these problems, inflation is probably fundamental to almost all the others. Inflationary pressures, consisting essentially in demand for goods and services in excess of the available supply at the current level of prices, were to be expected during the immediate post-war years, and again during the 1950-52 impact of the Korean war. But it is ominous that high prices and inflationary pressures have persisted even when many of those special conditions had diminished. One factor here is the elevated level of popular standards and demands for consumption. This represents a marked change, if not a sharp break, in the traditionally conservative and docile habits of the Japanese masses. In part the new demands may be due, curiously enough, to the example of Western living standards set forth by the American troops and Occupation officials in Japan, an influence which, following Professor Nurkse, is now called the "international demonstration effect".⁷ In part the new demands are implemented, and perhaps encouraged, by the new power of organized labor, which now numbers nearly 6 million members (about 40 per cent of the nonagricultural labor force) compared to virtually no membership at all in free unions before the war; and we must not overlook the new power of the gentler sex, as evidenced by female suffrage, new opportunities for education and employment, and general social emancipation.

Some policies of management, the government, and the Allied Occupation must also bear partial responsibility for the persistent inflation. Industrial payrolls are swelled by the employers' traditional paternalism in carrying all their workers on the rolls even when there is inadequate work for them—a kind of feather-

⁷ Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (New York, 1953), chap. iii.

bedding by the employer. Management has also inflated costs by the luxurious services provided for executive personnel, by the elaborate commercial entertaining which accompanies the transaction of business, and by the expenditure of precious capital for construction of less-than-vital office buildings, entertainment facilities, and the like. Business has become accustomed to obtaining the bulk of its capital, both current and long-term funds, from the banks rather than from reinvested profits; consequently there is little built-in pressure to reduce costs, but rather much encouragement to rely on the banks—and ultimately on the Bank of Japan—to bail out every sinking enterprise. It is also sometimes alleged that management has been handicapped by some of the post-war reforms, notably the economic purge and the deconcentration program; these were initiated by the Allied Occupation, were never very vigorously enforced, and are now quietly lapsing.

For its part, the government possesses the necessary fiscal and monetary powers which could terminate many of these practices, but it has not used them very vigorously. The reasons are no doubt partly a matter of political influences, but in addition the government has not dared to raise taxes drastically or to put the screws on credit because every incentive and assistance for increasing production was desperately needed. Japan's post-war recovery was floated on a swollen stream of credit, which could not be dammed by the budget balancing and even nominal surpluses achieved under the stabilization program outlined by United States Adviser Joseph Dodge. What is required for counter-inflationary action here is not only balanced budgets together with restriction of total credit, but also a painful operation of rationalizing production, cutting employment in each plant to the full-time working minimum, promoting price competition, perhaps rationing credit, and certainly curtailing consumer purchasing power by severe taxation.

In face of the inflation—and in large part *because* of the inflation—the Japanese economy at present is not doing at all badly on the domestic side, somewhat like the man who didn't know that he had been officially declared dead. The national income has been rising rapidly, by about 12 per cent a year (simple average for 1950–53); and in per capita terms now stands some 6 per cent above the 1934–36 level. The number

of completely unemployed persons is little more than one per cent of the labor force; however, the number of underemployed (persons working less than 35 hours a week) is about one fourth of total employment. Per capita consumption for all Japan has also just exceeded the 1934-36 level, farm families showing an improvement over the pre-war base while urban families have not yet recovered that level. Gross investment in 1952, including both public and private undertakings, came to the high figure of some 25 per cent of the gross national product; roughly two thirds of this investment was in the category of producers' durable equipment (although, in the two preceding years, inventory accumulation had accounted for over half of gross private investment). All these impressive figures,⁸ however, must be viewed in terms of a special and transitory situation; namely, the response to a rapid expansion of demand amid idle and underemployed resources. As the economy moves closer to full employment, and as the inflationary conditions exert their pressure, the problems pile up.

These problems usually appear early, and in acute form, in the area of international trade, where the domestic difficulties combine with the external handicaps. Japan's international accounts have already come to a crisis. Thus it may be said that from 1950 to 1954 the Japanese accomplished a great expansion of internal economic activity at the expense of external equilibrium. The excess of merchandise imports over exports, which had been small in 1950, rose to a high level in 1951 and 1952 (\$700 million and \$750 million, respectively), and then soared in 1953 to the staggering sum of \$1,135 million. Thus in 1953, merchandise exports covered little more than half of the total imports. Early in 1954, the monthly import excess reached new peaks, but then was curtailed and gradually reduced, with a trend near the end of 1954 toward a small surplus of merchandise exports. However, the striking improvement during 1954 rests on special circumstances, some of which are certainly not permanent.⁹

⁸ Data from Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East, 1953*, chap 12; and from Economic Counsel Board, *Economic Survey of Japan (1953-1954)*, Part I, chap. ii.

⁹ Trade data from *Economic Survey of Japan*, Annex 4, and *Oriental Economist*, November 1954, pp. 560-561. The 1954 improvements in trade consisted

The merchandise trade deficits in 1951 and 1952 were more than balanced, and in 1953 were not fully balanced, by invisible earnings; these consisted chiefly in the United Nations "special procurement" expenditures of over \$800 million a year in 1952 and in 1953, for armament orders, local military supplies and services, Korea relief supplies, and personal spending by United Nations soldiers and civilians in Japan. The special expenditures were at a lower level in 1954, but have not yet shown the full impact of the curtailment to come.

Imports have been running high because of the inflated domestic purchasing power together with lagging domestic supplies. Exports have been restricted by the same factors, plus difficulties of selling the goods available for export. For many items on which export hopes are pinned, such as machine tools and chemical fertilizer, Japanese prices are higher than competitive offers; while for many of the staple consumer items, notably cotton textiles, Japanese goods no longer undersell by the wide margin which formerly prevailed.¹⁰ Evidently the domestic inflation, by forcing up wages, coal and steel prices, and other costs, has deprived Japanese industries of one of their principal advantages in pre-war competition, at the same time that as prices have been further boosted by the necessity of buying many supplies in distant, high-cost markets and in other markets inflated by the post-Korean boom. In addition, Japan's foreign sales in general are hampered by inconvertibility of currencies and inability to balance trade bilaterally;¹¹ by

chiefly in a sharp drop of imports, accompanied by a gradual rise in exports. Most of the import drop was achieved by government restrictions on import credits, and was obtained, not in the category of luxury goods, which are only a small percentage of the total imports, but chiefly in the indispensable categories of foodstuffs and industrial supplies; such curtailment can be supported only for a short time by consumption of inventories. Likewise the increase in exports depended partly on sales of a forced or sacrifice type (pushed by the domestic deflation and the export-import link system), especially to Indonesia and to South Korea (whose prospects for early payment are not good).

¹⁰ For comparative price data, see *Sangyo Keizai*, July 1, 1953, pp. 5-17; and *General Survey*, Table 22.

¹¹ Before the war, the foreign trade of Japan was roughly balanced with respect to each currency area; but in recent years only the sterling and open-account areas have approached a balance, while the dollar account shows a heavy deficit. Cf. *General Survey*, pp. 15-16 and Table 12. Reorientation of Japanese purchases might somewhat relieve the dollar shortage.

Japan's limited capacity to extend credit to her customers; by loss of the protected markets and supply sources in her former colonies; by the progress of industrialization in her former markets; by the discrimination practiced by countries which suffered from Japanese aggression during the war; and by the substantial destruction of the merchant marine, which formerly held down the cost of shipping Japanese goods and also earned vital foreign exchange in carrying other countries' goods.

The magnitude of Japan's whole economic task in the near-term future may be summarized in a single measure, namely, the increase in exports needed to balance her international accounts without relying on United Nations expenditures and other forms of inter-governmental aid. I estimate that to attain that objective, Japan must nearly *double* her 1953 exports.¹² It will be a herculean task for her people, simply to produce these goods at world-competitive prices, and make them available for export without an entirely offsetting rise of imports. But in addition this task imposes a heavy burden upon the rest of the world, which must be prepared to accept this inflow of Japanese goods, notwithstanding the hardships and readjustments that will thereby be forced upon particular industries, their employees, investors and suppliers.

One of the principal dangers of the trade problem as formulated here is the lure of the potential trade with China. In pre-war

¹² This estimate of a requisite increase of nearly 100 per cent in Japan's exports is in value terms, and assumes balancing the international accounts at a level of imports consistent with both internal stability and a high rate of capital formation. More specifically, the estimate rests on a reconciliation of several available calculations. According to recent estimates by the Ministry of International Trade and Industry in Tokyo and the State Department in Washington, Japan will need in the near future at least a 47 per cent rise in merchandise exports; this calculation was based on closing the 1953 gap in the balance of payments, and assumes that some \$300 million worth of "luxury" imports can be eliminated, and that Japan can expand her shipping activities by \$200 million. A higher goal, calling for somewhat more than doubling the 1951 value of exports, results from estimating the amount of trade required to restore Japan to the same per capita value of trade (after adjusting for price changes) as she enjoyed in 1934-38; see Jerome B. Cohen, *Economic Problems of Free Japan* (Center of International Studies, Princeton, 1952), pp. 64-66. Finally, Japan's exports would have to triple their 1953 volume if they were to regain the same physical quantum as in 1934-36, when the national income per capita (after price adjustment) was just about the same as in 1953, and the whole international account of Japan was in balance.

years, the area now occupied by Communist China used to take about 18 per cent of Japan's exports. If sales to Communist China were to regain this share of the afore-mentioned goal figures for Japanese exports, from a present share of nearly zero, the new sales to China would represent over one third of the whole increase to be sought by Japan in all parts of the world. This is a formidably important share, and suggests the huge attraction which the China market holds for Japanese business men. To be sure, the Chinese Communist régime needs at home most of the food, coking coal, iron ore and other resources which Japan would like to obtain; and Red China has little interest in buying the consumer goods which Japan used to send to her vast neighbor. But unless the free world is willing to absorb the additional Japanese exports, there will be great incentives for the Japanese to seek at least some part of the large potential which they envision in Communist China.

The most serious aspect of Japan's difficult present situation is that the handicaps are largely permanent and will tend to worsen in the future, while the present offsets to these handicaps are temporary and will tend to dwindle away. The chief of these offsets is the afore-mentioned "special expenditures" made directly and indirectly by the United Nations forces in Korea and Japan. These expenditures have already begun to decline from the high levels of 1952 and 1953, and are expected to fall drastically unless new events intervene.

During the next few years, new burdens are due to fall upon the Japanese economy. The government recently assumed responsibility for the pre-war foreign-held national debt, which has been in suspension since 1941; in 1953, payments began on account of accrued interest and amortization of principal, and are scheduled to amount to about \$35 million a year in the near future. Dividends on private investments and royalties on patents are expected to run at about \$22 million a year.¹³ The post-war debt or obligation representing United States aid under the Occupation is figured at about \$2 billion; negotiations are under way by the United States to obtain some repayment, and by the Japanese to scale down the outstanding amount and defer the repayment. Another growing burden

¹³ Data on debt and investment service from *Economic Survey*, p. 43.

is reparations. The recent agreement with Burma established a figure of about \$250 million to be delivered in machinery, other goods, loans and technical help, over the next ten years. If a settlement with Indonesia and the Philippines is forthcoming, the payments will probably be much greater; while if a settlement is not reached, the obstacles to Japanese trade and clearance of accounts in these areas will to some extent persist. One of the latest burdens to emerge is national defense, a burden which Japan—like Germany—was spared as long as first the Allied Occupation, and then the United Nations forces in Korea and Japan, provided in effect the country's military protection. Now that Japan must protect herself in increasing degree, the defense item appears in the government's budget at double the pre-Korean level, and is expected soon to amount to some 3 per cent of the national income.¹⁴

While these positive burdens are growing, the degrees of freedom open to the Japanese are likely to narrow. Competition in Far Eastern and Latin-American markets has already become intense, particularly as a rejuvenated Britain and resurgent Germany bring their superior economic strength to bear against the Japanese. In addition, the markets of the retarded countries are changing; growing industrialization will reduce their imports of the cotton textiles, rubber footwear, ceramics and stamped metal goods which were the staples of Japan's exports to those areas before the war. To be sure, such industrialization will open up new markets for machinery and equipment, for technical services, and for the higher orders of consumer goods; but, unfortunately for Japan, these are lines where often she has no comparative advantage, or at least less advantage than in the staples where low-paid labor, performing simple mechanized operations, served greatly to reduce costs.

The situation of the Japanese economy, present and prospective, suggests that Japan cannot get along without outside aid of some kind. More exactly, without aid Japan probably cannot achieve a level of consumption and investment which would provide internal and external stability. Japan faces the problem of vital structural change in an unfavorable environment: more specifically, the problem of carrying forward the

¹⁴ E.C.A.F.E., *Economic Survey of Asia and the Far East*, 1953, p. 85 and p. 132; cf. *Economic Survey of Japan (1953-54)*, p. 194.

unfinished industrialization of the country, amid conditions of inflationary pressures and international deficits; and the necessity of persevering in the industrialization as the means in the long run to both stability and welfare, despite the likelihood that in the short run stability will be endangered and welfare may be reduced.

Perhaps the Japanese leadership, private and public, can carry out measures of these kinds without outside aid. A new "austerity program" was begun by the government in October of 1953 with the imposition of credit curbs. This program has since been extended along both fiscal and monetary lines, and urged upon the public with considerable publicity. However, deflation and real curtailment of consumption, entailing bankruptcies and unemployment, are painful and unpopular measures. So are resolute policies against trade with Communist China, and so are proposals to bear a share of the costly military defense organization against aggression in the Pacific. The political issues which have brought about the fall of the Yoshida government are eloquent expression of the domestic storm already gathering, well in advance of the new pressure areas which are beginning to form. These are the ill winds which can blow good only to the Soviet Union and Communist China.

Outside aid to cope with these storms within Japan need not be primarily grants, relief and give-aways, and need not allot to Japan an undue share of the limited resources available in the West for aid all over the world. A more equitable, stable and constructive program of economic coöperation is possible. Only a few features of such a program can be outlined here. One major feature would be accelerated development of retarded areas, utilizing not only the down-to-earth and inexpensive though very limited approach of Point Four, but also a more massive and avowedly more expensive program of developmental loans such as the scheme currently being debated in the United Nations under the rather dubious abbreviation of SUNFED (The Special United Nations Fund for Economic Development). Rehabilitation measures in Korea will also benefit Japan. Another line of action would be full acceptance of Japan into the existing international trade and currency agreements, along lines now being discussed in the

current round of international conferences on the General Agreement on Tariffs and Trade (GATT). This step might be supplemented by further reductions of tariffs and quotas which operate particularly against Japanese goods. A related program would hasten the conclusion of pending reparations settlements. Within Japan, productivity can be greatly improved by the investment of foreign capital, whether purchase of Japanese securities, establishment of branch plants, or provision of technologies by such methods as the exchange of American patents for shares in Japanese companies. In the broadest terms, the Japanese, like nearly everyone else, stand to gain from a high and expanding volume of world production and trade. Expansion in real terms is the best practical alternative to painful deflation.

In all these international measures, the United States occupies a special position. It is our markets particularly which the Japanese need to enter (at least as long as currencies are not fully convertible). It is here that investment and aid funds are available. It is our military procurement which is currently a major support to the Japanese economy. It is our sponsorship which seems indispensable if Japan is to be brought into effective economic relations with the rest of the non-Communist world.

DISCUSSION: JAPAN'S CAPACITY FOR ECONOMIC SURVIVAL

CHAIRMAN PEPPER: Ladies and Gentlemen, you have heard a concise but clear analysis of Japan's economic predicament.

Now, I am informed by the highest authorities of the Academy that there are no fixed, immutable rules for the conduct of these meetings, and that each chairman goes his own sweet way. I shall go mine, and so I am decreeing that we shall have some questions at the end of each paper—a few only—and then, after all three are read, we shall have general questions on all of them. So now, have you questions on the first paper? And may I ask without rudeness that the questions be brief?

MR. N. F. JOHN [Princeton]: Is the economy of Formosa pretty well tied up with what you just related about Japan?

PROFESSOR REUBENS: I am not sure I understand exactly what you mean. Do you mean, is the situation on Formosa as bad as the situation in Japan?

MR. JOHN: Yes.

PROFESSOR REUBENS: The situation in Formosa is in some ways quite similar, particularly as regards inflationary pressures and heavy import requirements. The special problem in Formosa which overwhelms most of the long-run factors is that Formosa is now attempting to serve as a base for an army and a population far beyond its ordinary capacity to support. The difficulties of balancing the Formosan economy in ordinary peacetime would be great enough, in view of the uneconomic specialization imposed by the Japanese when the island was their colony and constituted a reserved market and a source of supply within the yen bloc. But these difficulties are now overshadowed by the necessity of supporting this large governmental establishment, military establishment, refugees, and so on. The island therefore becomes dependent upon outside assistance.

MR. EWING [Morgan, Stanley Company]: I would like to have an estimate of how many dollars a year from the United States would be necessary, in your opinion, to put Japan on the road to recovery.

PROFESSOR REUBENS: Well, this is not only a \$64 question, but at least a \$64 million one. I can make only certain approaches to putting a figure on it, although obviously anybody with enough courage can specify a large amount.

In the first place, I would say that Japan is already on the road to recovery; she needs aid to keep her on that road. To do this, the Japanese economy must somehow provide or somehow acquire additional foreign

exchange amounting to nearly a billion dollars a year above the 1953 level to close the prospective deficit in the balance of payments after the present forms of outside assistance have dwindled away, and after the special factors keeping up exports and restricting imports have exhausted themselves.

Now, would foreign aid have to make up all of that? Perhaps the Japanese will be successful in penetrating foreign markets by various devices of their own activity, plus coöperation from abroad. However much they can expand their exports over and above induced imports, this will of course diminish the share of that global figure which would be left for the outsiders to support.

It also becomes a matter of timing. In the next few years the obligations on foreign aid will probably be considerably more substantial than, say, on toward the fifth year or the eighth year of the period I have in mind, at which time the Japanese would presumably be more capable of carrying on their own support.

A small amount of aid provided promptly might enable the Japanese to set their own affairs in order so that a large amount of aid subsequently would not be necessary. It is partly a matter of the form in which the aid is provided. It can be more effective in small amounts if it is given for general support, rather than if it is used solely for closing an existing gap in the external accounts. I would like to give you a more concrete and specific figure, but I am afraid it depends on all those circumstances.

MR. LAZARUS: Do you think the retirement of Yoshida might change the economic picture because his successor is supposed to want closer ties with Communist China?

PROFESSOR REUBENS: This becomes a matter of speculation as to what the new government will be, let alone what its policies will be. I am not sure that anybody can be very definite about it, and I certainly would be quite hesitant to say. The new government has, of course, not yet been formed. If it were a socialist government, I daresay it would propose that the amount of trade with Communist China be greatly increased; but in practice there are some massive economic obstacles. On the other hand, I suppose that a socialist government would have even less courage in pursuing a counter-inflationary policy of wage stability than the existing government. So that you get into some relaxation of the pressures and also some intensification of them.

If the Right wing of the Liberal party comes in and follows the policies which vaguely have been outlined in the declarations that have been made so far, I would guess that trade with China would be somewhat increased, not as much as the Socialists would like to do, but the domestic policy would be very much amended. The deflationary impact on business firms is apparently one of the reasons why the government has been

shaky and finally fell, and I daresay that the Right wing of the Liberal party would tend to relax those controls. So it would mean important changes. But it depends obviously upon the complexion of this government and its policies.

REMARKS BY THE CHAIRMAN

CHAIRMAN PEPPER: I think, Ladies and Gentlemen, I shall ask you to hold in abeyance your other questions on the first paper until all three have been read.

We now come to a less painful but no less important aspect of Japan, namely, the political. Japan was militant, militarist and, at least, quasi-dictatorial before the war. What is it now? Has it learned anything? What is it? What shall it be politically?

To discuss that we have Mr. Douglas Overton who has a long Japanese background to qualify him to talk about it. He has spent many years in Japan since his graduation from Harvard in 1936. He taught at St. Paul's University in Tokyo five years. He spent four years in the Army, and for six years thereafter he was in the Foreign Service—happily for him, in the Japan Branch of the Foreign Service, which has therefore not been a conduit to suicide or, at least, extinction. He was Vice Consul in Yokohama, and for two years Second Secretary of the Embassy in Tokyo, and for two years Deputy in charge of Japanese Political Affairs, Department of State. He is now Executive Director of the Japan Society and I present him to you.

THE POLITICAL STRUCTURE OF JAPAN— DEMOCRATIC OR PATERNALISTIC

DOUGLAS W. OVERTON

Executive Director, Japan Society, Inc.

PERHAPS the question I am most frequently asked by groups interested in knowing more about Japan is "Are the Japanese really democratic now?" The question apparently stems from two factors. In the first place, the average American is obviously confused by what he heard about the Japanese during the war—their fanatic attachment to the Emperor, their blind obedience to military commanders who ordered *banzai* charges and *kamikaze* attacks which meant certain death, and their docile willingness to work long hours at pitiful wages—and the glowing reports he has since heard from MacArthur and his lieutenants about the great transformation which took place in Japanese political life between 1945 and 1952. Secondly, the American of 1954 is bound to be more curious than ever about a country which in less than ten years has changed from our bitterest and most savage enemy to our strongest ally in the Far East—the bastion of our defense in the Western Pacific.

He knows something of Japan's great potential—her remarkable technological achievement, her humming factories, her skilled labor pool, and her able managerial talent; he knows also that this potential was marshaled during the thirties to fight a war on the side of Hitlerism, Fascism, and militaristic expansionism. He believes—naïvely so, I fear—that if only Japan is made democratic the tragedy of 1941–45 can never be repeated. Possibly so, though I think it is not really necessary to remind a gathering such as this that theoretic Imperial rule by divine right, *de facto* oligarchic government, thought control, Shinto mythology, and even the crucial political power wielded by the old Japanese Imperial Army and Navy were not the real causes of the war—the festering sore in Japan for these many decades has been overpopulation, a lack of basic raw materials, and a lack of adequate markets to ensure her people enough trade to maintain a decent standard of living.

If anything, the situation today is worse than ever, and no Japanese government, be it run by Republican types from the world of big business, by New Deal types from the intellectual and labor groups, or by the Shinto gods themselves, will be able to save Japan unless something drastic is done to improve the Japanese economy within the next several years.

The new Constitution of Japan, the Constitution of 1947, is a democratic document. In many respects it provides for a governmental machinery which is more responsive to the wishes of the people than our own. It relegates the Emperor to the side lines—at least so far as any governmental power is concerned—defining him simply as “the symbol of the State” and limiting him sharply to acts which are largely formal or ceremonial in nature. Sovereignty is explicitly defined as residing in the people—a far cry from the old Constitution, which had been bestowed upon the people by an absolute monarch and could, in theory at least, be revoked by him if he chose to do so. The veto power held by the Army and Navy over any civilian cabinet has disappeared. In fact, the Army and Navy themselves have disappeared, in name at least, for Article 9 of the new Constitution flatly states that Japan shall never maintain land, sea, or air forces—a somewhat embarrassing article based on a pathetic hope in 1947 that Japan might become the Switzerland of Asia, and one which has had to be circumvented by politely naming Japan’s new troops first the National Police Reserve and now simply the National Defense Force.

The Constitution also provides for a bicameral Diet (defined as the “highest organ of state power” and “the sole law-making organ of the State”) which is elected by all the people, that is by all males and females who have attained the age of twenty; an executive organ in the form of a Prime Minister and Cabinet who now are responsible to the Diet; and an independent judiciary (in pre-war Japan the Justice Ministry acted as policeman, prosecutor, and judge). An interesting feature relating to the judiciary provides that the appointment of each judge to the Supreme Court shall be reviewed by the people at the first general election following his appointment and that subsequent reviews shall be made every ten years. In cases where the majority of voters favor dismissal, he must be dismissed.

As for civil liberties, the Constitution is most generous—all people are to be respected as *individuals*; all are equal before the law, and there shall be no discrimination in political, economic or social relations because of race, creed, sex, social status or family origin; there shall be no peerage; secrecy of the ballot shall not be violated; freedom of thought, conscience and religion are guaranteed, as well as assembly, association, speech, press and “all other forms of expression”. Academic freedom is flatly guaranteed; everyone has the right to work; children shall not be exploited; and workers may organize, bargain, and act collectively.

All in all, the Constitution of 1947 is a most advanced charter for democratic procedures. Whether it is Japanese in feeling, of course, is another matter. Some feel that it is clearly marked “Made in Philadelphia, 1787”; others wryly observe that the Japanese text really does not make much sense, but that by using the official English version the Supreme Court is making some progress in interpretation—a sly dig at the men in MacArthur's Government Section who negotiated, cajoled, intrigued and blustered—not to mention drafted whole sections—before the Japanese came up with a Constitution to suit the Occupation. Interestingly enough, however, the Japanese have made no formal attempt to amend the Constitution, though for the past three years they have been absolutely free to do so.

The Occupation, naïve as it may have been in some ways, can at least be credited with a firm belief in its mission to strengthen democratic tendencies and an enthusiasm for carrying it out. Between 1945 and 1948 a series of steps were taken not only to provide the blueprint for a government directly responsible to the people but also to needle a somewhat exhausted and preoccupied people into using the blueprint. The Occupation reform program, perhaps not an unqualified success if permanence is any criteria, certainly had some therapeutic value, if only because it stimulated some thinking down below in the mass of Japanese society. The conversion of the forty-six prefectures of Japan from administrative units under the firm thumb of the old Home Ministry into American-type states with elected governors and local assemblies; the breakup of the old financial combines, the so-called *Zaibatsu* families; the removal of all primary and secondary schools from the aegis

of the old bureaucratic Ministry of Education and their transfer to prefectural control; the decentralization of the police system; the extensive land reform program which substantially reduced absentee landlordism—all raised grave problems. The prefectures now had power, but no ready tax revenue to carry on; the *Zaibatsu* were out, but nobody quite knew where to look for new managerial talent; the schools at last had freedom from the bureaucrats, only to fall into the toils of local politicians or Leftist agitators; the police at least lost some of their arrogance, though it must be admitted they were far less efficient at catching criminals; and the land was now in the hands of the men who tilled it, though there still was no more of it to go round—a fact which has plagued Japan more than absentee landlordism.

For all that, however, the reform program had its effects in a broad sense. More people got into active political life, voters began to take an interest in national and local issues, and some degree of mobility was achieved in the world of commerce and industry.

Despite all the measures taken by the Occupation and the Japanese themselves, however, there are certain obstacles to the growth of truly democratic institutions in Japan, certain vestiges of paternalism which will continue for some time and must continue if Japan is to remain stable in this very uncertain period of history.

The real problems which pull Japan in the direction of paternalism and away from individualistic democracy are partly psychological with the Japanese people themselves and partly the result of external factors quite beyond the control of the Japanese.

The Japanese have not been individualists, either by history or by nature. In the old Japan the household was the lowest political unit, not the individual adult. Even today the power of the family is strong. Marriages are still arranged—on what scale it is hard to say, but certainly among half the people. Young university graduates in the first few years of their business career, or even for the first several years of their married life, are still closely dependent on their families, for starting salaries are very low and new housing is difficult to find. Unemployed individuals still look to the family to tide them over hard times, and it is a reprehensible family indeed which would refuse to provide a place to sleep and to share its food with even a distant

cousin who is down and out. The family provides Japan's normal social security system.

Beyond the immediate family there are wider relationships which form what has been called the web culture of Japan, a system which binds each individual to age-old fixed patterns of behavior and which as a point of individual and family honor must be observed. One has certain obligations to one's inferiors and duties to one's superiors, in fact one uses different words and verb endings in his language depending on the status of the person whom he is addressing. Harry Emerson Wildes in his recent book *Typhoon in Tokyo* describes an incident which very clearly reveals the web relationship of a Japanese community, when in 1952 an entire village boycotted the family of a high school student who was indiscreet enough to write a civics paper concerning ballot box frauds:

The boycott, which lasted into 1954, took the form of reviving an ancient form of ostracism—*mura-hachibu*—which excluded criminals from social contacts with the community in any relationship except those required by funerals and fires: no employer could hire any member of the family; the farm cooperatives refused seeds and tools; no one would visit the house nor speak to any person associating with the ostracized. From the standpoint of the . . . populace the revelation of election corruption was unimportant in comparison to the "disgrace" said to have been brought on the village by the publication of the facts. "Even if the facts existed," the high-school authorities said, "it is against etiquette for anyone to expose it."

Personal relationships, too, are strong in Japan and often tend to obscure or obliterate principles. The present conservative group in the Japanese Diet, for instance, is badly split by factionalism, centering on certain personalities like Shigeru Yoshida, Ichiro Hatoyama, and Mamoru Shigemitsu—all holding practically identical political beliefs, but never able to form a stable coalition, far less construct one unified conservative party. Irresponsible party factionalism and its resulting neglect of the country's interests did much to wreck liberalism in Japan during the twenties and led directly to the militarists, who had a plan to save the country and were single-minded enough to carry it out. Continuation of personal bickering and jealousies among political leaders in the new Japan might well lead to a

disastrous Balkanization of the Diet, legislative chaos, and a take-over by the better-disciplined minorities of the extreme Left or Right.

Beyond the peculiarities of traditional Japanese society, however, lie other problems which encourage paternalism and oligarchic government at the expense of the democratic way. Japan's present economic plight has already brought on re-concentration policies in business—for instance the recent revival of the Mitsubishi empire and the pending reconstitution of the Mitsui interests. This trend may not be bad in itself—in fact there seems to be no choice in the matter, for top-flight managerial talent is scarce and Japan's position in world trade today is so weak competitively that intense rationalization of industry and commerce may be her only recourse. The fact remains, however, that as far as the individual is concerned, he will more or less be forced to seek his niche in a large, paternalistic company rather than strike out for himself and develop a business of his own.

Security problems, too, have tended to hinder democratic tendencies. A striking case is the problem of rearmament, which has been faced up to by the Japanese government only after persistent prodding by the United States. The present Japanese government fully intends to rearm Japan, but it has never dared to place the issue squarely up to the electorate by seeking to amend Article 9 of the Constitution which forbids the maintenance of armed forces. This could be accomplished only by obtaining the concurrence of two thirds of the Diet and approval by a majority of the voters in a national referendum, a highly unlikely achievement when rearmament began in 1950 and one of dubious outcome even today. Instead the government has sought to placate both its American ally and a war-weary and antimilitarist Japanese public by playing its cards close to its chest—rearming slowly, but clinging to the fiction that Japan's forces are a kind of Home Guard or an extension of the normal police system. Such maneuvering violates the principle that government should be directly responsive to the desires of the people, but there seems to be little choice in the matter until the Japanese—their intellectuals, writers, labor leaders, women's organizations and other opinion-molding groups—wake up to realities. Pending that out-

come, the decisions for rearmament are going to be made by the men at the top.

On balance, I believe that we can conclude that under the circumstances nearly everything possible has been done to encourage a breaking down of paternalism in the Japanese political structure and a strengthening of democratic tendencies. The Japanese have been given the blueprints in the form of a modern democratic constitution and they have been exposed to the fruits and responsibilities of self-government on the national, prefectural and local level. In picking up the torch and carrying on for themselves, they are running into problems which inhibit the individual from exercising completely independent judgment—family restraints, entanglement in the web of Japanese society, personal involvements, and desperate economic and security problems which are hard to fathom alone and responsibility for which they are strongly tempted to abdicate to higher political authority.

One thing we may be certain of, however, and that is that, barring a serious economic collapse, the Japanese people will not unconcernedly turn their backs on the gains of the past decade. Democracy has brought with it its own set of vested interests which are prepared to put up a strong fight to preserve every gain made. To mention only a few, the women of Japan have no intention of surrendering their new freedom, labor will fight every move toward the old company-dominated paternalistic unions, teachers have already begun a struggle against what they believe to be the beginning of a return to the old thought control, and the intelligentsia will write to the death to defend their liberty to complain. Even the most conservative business man cannot fail to be moved, for at least under Japan's present government he has a far greater say about how his taxes are to be spent than he ever did in the old days.

Self-interest, then, rather than any idealistic attachment to theories will be the principal bulwark of democracy in Japan. The Japanese have never been ones to put the clock back—in fact their history of the past hundred years has been one of extremely rapid catching up with the West. Given a decent break—peace with the world and reasonable prosperity at home—they will gradually shed paternalism; for, valuable as it has

been in ensuring social stability during the past century while Japan has hopped, skipped and jumped from feudalism and absolute isolation to become the most advanced country in Asia, it belongs to the past. The individual is taking over, and with him will come democracy. That democracy may occasionally be clad in a kimono, but it will be recognizable by its cousins in Europe and America.

DISCUSSION: THE POLITICAL STRUCTURE OF JAPAN

CHAIRMAN PEPPER: When you heard Mr. Overton on the new Constitution and the coming of Jefferson to Japan, you must, like me, have reflected that once upon a time two British gentlemen, one named Gilbert, the other named Sullivan, wrote a perfectly charming, kindly, satirical opera about Japan. It occurs to me that someday two Japanese gentlemen, named the Japanese equivalent of Gilbert and Sullivan, will write a perfectly charming and satirical opera on democracy's arrival in Japan. [Laughter] And one likes to think of the Japanese MacArthur singing, "My object all sublime, I shall achieve in time." [Laughter] They probably are singing it now in private.

Now you ask Mr. Overton questions.

MR. WILLARD HAMILTON [Maplewood, New Jersey]: I should like to ask whether Christian influence in Japan is increasing. I happen to know personally Toru Matsumoto who at one time was widely known in this country. He is a professor at Meiji Gakuin. He is very enthusiastic about their 4,000 students. In your judgment, is the influence of such institutions extending?

MR. OVERTON: I am glad you gave me a chance to speak on that, because I believe strongly that such institutions and the whole Christian movement in Japan are extremely important. In our time Japan will never become a Christian nation. As a matter of fact, there are only about 400,000 Christians—that is, people who are actually members of churches—in the whole population of 88 million. However, they have had a very important leavening influence.

Just to cite a few examples, at least one post-war Prime Minister has been a Christian, and the Chief Justice of the Supreme Court is a Christian. Numerous people in the Foreign Office and other Ministries are Christians, and so are many teachers. If they are not among the 400,000 who belong to churches, they may well be in the group called *Mukyokai* or non-church Christians who may run into the millions.

The Japanese have a great weakness. They lack absolutes, moral absolutes. Their own religions have never given absolutes to them, and I think they are now profoundly disturbed by that fact. A good many Japanese, even though they are not themselves Christian, will tell you today that Christianity is the one hope for a healthy political democracy in Japan, because it teaches the worth of the individual.

MR. ROBERT BLACK: What preference does the youth of Japan show politically?

MR. OVERTON: The youth are somewhat to the left of Mr. Yoshida, I can assure you. I think most students in Japan lean very strongly to the Socialist side, a good many to the Left Socialist wing. About the time they are ready to graduate, they change, because they simply cannot get a job in Japan unless they have a pretty clean security record. If they haven't, they are not going to get a job. This has a tendency to quiet them down.

In the past few years there has been a good deal of student agitation. There are a great many students who have studied communism. I have been told that as many as 50 per cent of some Japanese government universities are Communist. But you have to be careful there, because the Japanese will say anyone is a Communist if he does not happen to agree with them. However, students are to the left, definitely to the left. On the question of rearmament they are pretty strong. Why? They don't want to be drafted.

MISS SANGER: I have been told that there was more chance that Japan would become Fascist than Communist. Would you comment on that?

MR. OVERTON: I am inclined to agree with that. I don't think the Left has enough political know-how to maintain power. But there are some strange-looking elements on the right who have tasted power before and know how to wield it.

REMARKS

CHAIRMAN PEFFER: Again, will you reserve your other questions for Mr. Overton until we have finished the last paper.

We now turn to no less important a question with relation to Japan's foreign relations. For that we call on my colleague, Hugh Borton, Professor of Japanese History at Columbia, and Director of its East Asian Institute. He, too, has a long Japanese background, though young. He studied at the Imperial University in Tokyo for six years until 1937. Then he came directly to Columbia where he remained until the war. And for the war period and after, he was in the Department of State, at one time the chief of its Northeast Asia Section. Fortunately, he, too, was in the Japanese division rather than Chinese, so that he is still admissible in decent society such as this. [Laughter] Mr. Borton!

MR. HUGH BORTON: Thank you, Mr. Peffer!

I am indebted both to Professor Peffer and to my old friend, Mr. Overton, for the levity that they have thrown into this proceeding, because the subject which I am about to deal with is a pretty serious one and a pretty heavy one.

THE RELATION OF JAPAN TO THE CONTINENT: CHINA AND SOUTHEAST ASIA

HUGH BORTON

Director, East Asian Institute, Columbia University

ON the basis of recent reports from Washington, it is clear that President Eisenhower and his chief advisers believe that the cold war has settled down to a long period of competitive coexistence. The recent assignment of former Director of the Bureau of the Budget Dodge to the task of devising a policy which will demonstrate that the free world can lift the standard of living of peoples in underdeveloped areas indicates that the main battles of the immediate future between the Communists and non-Communists may well be economic rather than military and may be fought in Asia. At the same time, Communist China has started a campaign directed against the United States with the clear intention not only of usurping our position of leadership in Asia but of eliminating it as an important influence in that area. The recent announcement of Peking that thirteen Americans, including eleven airmen shot down in the Korean War, have been sentenced to prison as "spies" is, perhaps, an example of an attempt to discredit the United States in Asia. Hence the success or failure of this Communist campaign to isolate Asia from American influence will depend, in large part, on the attitudes which other Asian countries hold toward Communist China. The success will also depend on whether or not American policy in that area is based on knowledge or on wishful thinking. Hence it is imperative for purposes of strategy in the cold war to understand the interrelationships of the countries of Asia. Japan, with its economic potential and technical skills, with its needs for food, raw materials and foreign markets, and with its political and military alliance with the United States, is destined to play a significant rôle in the economic advancement of non-Communist Asia. Consequently, we must turn our attention to Japan's relationship with and attitude toward Communist China and other areas in Asia. Unless the United States understands Japan's attitude toward the rest of Asia, therefore, it may be

impossible for us to design an effective defense program for that area. In fact, if we insist that Japan follow a policy concerning trade with Communist China or recognition of the Communist régime similar to our own, then we may play directly into the hands of the Communists by alienating Japan and isolating it psychologically from the free world. As former Ambassador to India, Chester Bowles, has expressed it, "An American-inspired, American-managed, American-dominated defense program for Asia is a political dead-end."¹

But you may ask: "In view of the close coöperation which Mr. Yoshida and his government in Japan have shown toward the United States in the past six years, do they have an attitude toward communism any different from that of the United States? Do the Japanese people think or feel any differently about Communist China than Americans?" The answer is, "Yes, they do." Important segments of Japanese society, such as the Socialists, who command only about one third of the seats in the House of Representatives but whose opinions can be decisive if they side with the opposition or with the Cabinet, favor a neutralist policy similar to that of India and Burma of simultaneous friendship with the Communist world and the free world. The followers of both the Left-wing and Right-wing Socialists, many of them from among the six million organized laborers, prefer to have Japan remain aloof from the East-West struggle to prevent it from becoming a battlefield in World War III.

But what is even more significant is the fact that almost all groups in Japan today, including the Liberal party of former Premier Yoshida and the even more conservative Democratic party of Mr. Hatoyama, apparently favor the immediate expansion of trade with Communist China and the early recognition of the Peking régime. In fact, the attitude of the majority of the Japanese people is favorable toward what has taken place in the past five years in China. This attitude is the result of many factors. In the first place, the activities of the Chinese People's Republic are usually presented in a favorable light in the Japanese press. Japanese versions of the official Chinese publications such as the *People's China*

¹ Chester Bowles, "A Fresh Look at Free Asia", *Foreign Affairs*, vol. 33, No. 1, October 1954, p. 58.

and *China Pictorial* are widely read and translations of the works of Mao Tse-tung and other Communist leaders are popular. Japanese visitors to China, some official and some private, are politely treated and well entertained. Upon their return home they invariably write laudatory reports of the accomplishment of the new régime. It came as a shock, therefore, to the readers of the *Mainichi*, the second largest newspaper in Japan, to see a critical article written by Mr. Clement Attlee after his Peking trip. According to the American press, one would have thought Mr. Attlee was going to write nothing but praise for Communist China.

Another factor which has created in Japan an increasingly friendly attitude toward China is the recent reactivation of the repatriation program. The number of Japanese subjects known to have been alive and within Communist areas between August 9, 1945 and May 1, 1954 is reported as 46,304.² Although some of these persons may have died, a sizable number of persons, three fourths of them in Communist China, remain to be repatriated. Since March 1953, when repatriation was again begun, over 15,000 Japanese have returned home. Some of these repatriates have been thoroughly indoctrinated with communism; others have refused to comment on their experiences for fear of implicating those left behind. But the effect of this repatriation on Japan as a whole has been favorable.

In the third place, this uncritical attitude, bordering on friendship, stems from a certain sentimental feeling which the Japanese have for China. Many of them have lived there as civilians or as members of the Japanese Army before and during World War II. Because of these experiences and of the Chinese origin of many basic attributes of their civilization, many Japanese believe that they alone of all foreigners can best understand the Chinese and that they alone know how to handle them. As a contemporary Japanese economist has expressed it: "What must be further stressed is the sense of mutual kinship of Asian nations. Any policy which aims at anything like a complete permanent severing of the ties between the two countries will never be admitted by the national feeling of the majority of the Japanese people."³ Along with this

² Japanese Embassy, *Japan Information*, No. 5, Oct. 5, 1954. This figure is exclusive of the confirmed deaths of 252, 881.

³ T. Miyashita, *Observations on Problems of Trade Between China and Japan* (Tokyo, 1954), p. 31.

"sense of mutual kinship of Asian nations" is a definite tendency to differentiate clearly between the Soviet Union and the People's Republic of China. Though the Japanese realize that both are Communist, they fear the Soviet Union. They know that Japan will not necessarily be affected by events within the Soviet Union but that events in Communist China will have a direct bearing on them and their future.

Finally, there is a belief, especially among the intellectuals, that perhaps the developments in Communist China are the one hopeful sign for the future. They argue that the solution of both Japan's political and economic problems is hopeless. They point out that leaders of the dominant political parties (Yoshida, Ogata, and Hatoyama) are old men with old ideas. On the other hand, they know that China's problems were even more insurmountable than their own a few years ago but hear reports that these difficulties have been overcome by the application of new economic and political principles. It is easy for them to conclude, therefore, that perhaps Japan's salvation lies in communism rather than in a continuation of capitalism.

In view of these factors and a shrewd effort by the Peking government to exploit any available chance to win Japanese friendship, the interrelated questions of greater Sino-Japanese trade and recognition of the Peking régime have become burning issues of the day in Japan. On the one hand, the Foreign Office, perhaps with an eye on America, has officially discouraged trade with the mainland by emphasizing the slow progress made in China's economic rehabilitation. Other branches of the government, the political parties, business men and manufacturers, and the press consider such trade as a means of alleviating Japan's economic ills and agree that formal recognition of the Communist régime of Mao Tse-tung is an inevitable concomitant of expanded trade. Although numerous arguments are advanced by Japanese for such a policy, they boil down to the following:

- (1) The Chinese People's Republic, which has control over a population of roughly half a billion people, will not collapse in the immediate future. Consequently, Japan will have to learn to live with its neighbor under this government and might as well do so in such a way as to gain from this potentially profitable market.

(2) While trade with Communist China would be under state control, trade can be separated from politics. Even recognition would not subject Japan to the danger of communization.

(3) Formal recognition would permit Japanese in China to be treated on a reciprocal basis with Chinese in Japan. Presumably, if Chinese wished freedom of movement in Japan, both Japanese officials and private subjects would be allowed to travel freely in China. Such an eventuality would also be advantageous to the free world as information could thus be obtained on the real state of affairs within China.

(4) European countries, notably Great Britain, France and Germany, are already trading with Communist China, so no additional harm should come from Japan also trading with her.

From the point of an attempt to understand Japan's present attitudes toward Communist China, it is immaterial whether or not these arguments are convincing to Americans. The important fact is that they are convincing to many Japanese. Little concern is shown for the fact that future Communist China-Japanese trade will doubtless be limited to a small fraction of its pre-war amount and that the total of that trade in 1953 was about one fourth of Japan's trade with Nationalist China on Formosa.⁴ The thought of the potential market of the hundreds of millions of Chinese people on the mainland overcomes logic and adds impetus to the demands for trade. Thus, the enticing statements of Chinese government officials fall on receptive ears. In April 1952, Mr. Nam Han Chen, Chief Chinese delegate to the Moscow Economic Conference, took pains to point out that Japanese industry basically requires low-priced Chinese coal, salt, beans, and fat materials while China needs machines and other products from Japanese industry. (You will recognize immediately that that is inconsistent with what Mr. Reubens has just said.)⁵ As if in answer to this plea, the Japanese Parliament passed a resolution in

⁴ From 1930 to 1939, exports to China, including Manchuria, averaged \$198 million and imports \$115 million yearly and comprised 21.6 per cent and 12.4 per cent respectively of total trade. In 1953, exports were \$4.5 million and imports \$29.7 million or .3 per cent and 1.2 per cent respectively of total foreign trade. Trade in 1952 with the Nationalist government on Formosa amounted to \$49.8 million exports and \$64.8 imports. Miyashita, *op. cit.*, p. 8, and *China Handbook* 1952.

⁵ See *supra*, p. 12.

July 1953 requesting the government to take adequate measures to promote trade with China, to relax export restrictions, and to loosen travel regulations. In October 1953, a special trade delegation was sent to Peking which received, as a token of China's desire to trade, confirmation of an earlier £30 million barter trade agreement.

The concerted effort to attract Japan away from the free world bloc has been intensified during the past year. In January 1954, Vice-Minister of Foreign Trade Lei Jen Min announced that "China is firmly convinced that it can co-exist peacefully with countries which have different social and economic institutions, exchange goods with them and further develop normal trade relations." More recently, wide publicity was given to the agreement of Foreign Minister Chou En-lai and Prime Minister Nehru of India on several basic principles such as nonaggression, equality, and mutual benefit and peaceful co-existence. The port of Dairen has been opened to Japanese shipping. Finally, in mid-October 1954, both Moscow and Peking offered to open negotiations for a peace treaty with Japan but Acting Premier Ogata called the proposal a maneuver in the Communist peace offensive which had little substance. Thus, even though there is little likelihood that Japan will be jarred loose from its alliance with the free world, sentiment in Japan may be such as to force any subsequent Japanese Cabinet to consider seriously recognition of Communist China and expansion of trade between the two countries. If such a situation develops, American friendship with Japan could be maintained at its present level only if the United States did not interfere in any such action.

Southeast Asia

In addition to Japan's attitude toward Communist China, another important question concerns its relation with the countries of Southeast Asia, particularly with Burma, Indonesia and the Republic of the Philippines which refused to accept the San Francisco Peace Treaty. These three countries, which were occupied by and suffered severely from the Japanese Army during World War II, rejected the treaty of peace because of the reparations question and their understandable residual feeling of enmity against the Japanese. Because of

the wide discrepancy between the demands made by these countries for reparations and Japan's offers of payment, negotiations during the past two years have had only limited success. The first break in the log jam came as a result of the discussions, in the summer of 1954, between Burma's Minister of Industry U Kyaw Nyein and Japan's Foreign Minister Okazaki. New circumstances had caused these two countries to change their points of view. Burma was anxious to benefit from trade with Japan. For its part, since the end of the Korean War, Japan had lost in orders from the United Nations Forces approximating \$350 million yearly, and had perforce become more amenable to paying more than a token reparations bill to assure new markets. Consequently, Burma and Japan agreed on a reparations settlement. The equivalent of \$200 million would be paid by Japan in goods, technical services or cash and Japan would invest in Burma at least \$5 million yearly for ten years in joint enterprises. On November 5, 1954 agreement was also reached on a peace treaty. Thus the two countries have established normal cordial relations and Japan will soon begin supplying facilities for the development of Burma's electrical power resources and for harbor construction and for rolling stock and rails for the railroad. It is anticipated that trade expansion and private investment in new joint enterprises will naturally follow.

Negotiations with the Philippines on both reparations and a peace treaty have been far less successful than those with Burma. For example, by the end of 1952, the Philippine Senate had refused to ratify the peace treaty. When a special Foreign Office delegate from Tokyo discussed the reparations question in Manila, the Philippine government reduced its demands for payments from \$8 billion to \$5 billion. A year later, the figure of \$2 billion was mentioned as a starting point for negotiations but Japan's highest offer up to that time had been \$300 million. To date no firm commitment has been made by either country. The feeling is growing in Japan, however, that the Burma settlement may be the model for a future agreement with the Philippines. As time passes, both countries are likely to make concessions for the benefit of future trade. The Philippines will not wish to jeopardize its trade position with Japan by holding out indefinitely for a reparations payment which

is so large that Japan could not possibly pay it and the Philippines could not absorb it. Significantly, a member of the Philippine Congress has recently recommended that \$250 million be accepted as interim payments, that the treaty be signed, and that negotiations for a final settlement then be begun. My own prediction is that the final figure will be close to that amount.

In reference to Japanese relations with Indonesia, the problems are similar to those with the Republic of the Philippines. The Indonesians have sought to collect reparations covering war damages, loss of interest on the investment of damaged property, and the profits which might have accrued from those properties. Hence the discrepancy between the demands of the Indonesian government and the offer of the Japanese government has been as great as that in the case of the Philippines. But the settlement between Burma and Japan is also expected to have a salutary effect on any future negotiations in Jakarta. It is perhaps not too much to expect that after a year or two of successful operation of the Burma settlement both the Philippines and Indonesia will come to an agreement with Japan on about the same terms. When that occurs, unless there are other unforeseen developments, Japan may well have established friendly relations with all of the countries in Eastern and Southeast Asia, with the possible exception of the Republic of Korea.⁶

In conclusion, therefore, two trends seem apparent in Japan's attitude toward the Asiatic continent. In the first place, it is probable that demands will be intensified for increased trade with Communist China and for recognition of the Communist régime at Peking. Furthermore, while there is little danger of the Communists winning control in Japan, the Chinese Communists will capitalize on the strong neutralist sentiment within Japan in the hopes of alienating it from the United States. (Parenthetically, I agree with people who have recently returned from Japan that the Chinese Communists seem to

⁶ Post-war negotiations between Korea and Japan have broken down largely over the question of fishing rights. Dr. Rhee has claimed that the Korean Republic's territorial waters extend half-way to Japan (in some places over 170 miles from Korea) and hence Japanese fishermen are subject to arrest by Korea within that area. Korea also demands that Japanese assets in Korea be forfeited. As time passes and more incidents accumulate, tension between the two countries increases.

be even shrewder in their manipulation of their policy in reference to Far Eastern countries than is the Soviet Union.) Secondly, as Japan's relations improve with the countries of Southeast Asia, it will be able to play an increasingly significant rôle in any over-all program for the economic improvement of that area. If American plans and programs for economic planning to combat the spread of communism in these areas include the intelligent use of Japanese technology and productive capacity, these programs not only will be beneficial to Japan and to the countries of Southeast Asia but may also successfully counteract any moves by the Communists to win Japan to their camp.

DISCUSSION: ECONOMIC AND POLITICAL POSITION OF JAPAN

CHAIRMAN PEPPER: Now, Ladies and Gentlemen, will you put your questions first to Professor Borton and then to the other two speakers.

MR. RUSSELL DORR: I would like to ask Professor Borton if he could elaborate a little on the question of objection by the United States to trade between Japan and Communist China. He said that if we object, we will lose Japan's friendship. Does he go so far as to say that we must abandon, for instance, all the COCOM Regulations? Does he feel that it is objection by the United States today that is preventing trade between Communist China and Japan in nonstrategic materials, in consumer goods, in the exchange of coke and coal, salt, etc., for consumer use?

MR. BORTON: Did you all get that question? It is a double-barreled one: Should the United States withdraw its restrictions on the export of strategic goods as set down by COCOM, which is the cooperative committee to establish the forbidden list, and of which Japan has recently become, I believe, a regular member. Isn't that right, Mr. Reubens?

MR. REUBENS: Yes, Japan now participates regularly.

MR. BORTON: And the second question is, is the lack of trade in consumer goods between Japan and China the result of American policy?

I am going to answer this indirectly, because what I have been talking about is the Japanese attitude, which is, it seems to me, the important thing for us to recognize and to understand. The Japanese think that we should withdraw all restrictions. Until recently they have, as you know, not been on a par with the rest of the European countries with reference to the COCOM list. They say we should go even further and put no restrictions on them at all, and let them decide what is good and what is not good. In the second place, they would, I think, argue that because of our attitude toward Communist China, and because of our general displeasure at their increasing trade, we indirectly have been responsible for the lack of trade. Now, neither of those arguments is logical or sound as far as the United States is concerned, but I think you can say that is what they think.

As for the strategic list, I doubt very much whether Japan could develop a trade with China, even in strategic products of any real importance, because so much of Japanese trade with China is going to have to be on a barter basis, and so much of that, like coking coal, iron ore, industrial materials, etc., China is going to need for its own five-year industrialization program. In other words, as a friend of mine said recently—a Japanese friend—he thought the best thing to do was to let the merchants find out how soon they were going to get gypped, and all this furore will

die down. Percentage-wise, you see, the trade is far less than with the Nationalist government; yet there is this sort of intangible, "Four million people. They must want our goods."

As for your second question, I doubt whether our policy has had any direct bearing on consumers' goods being sold in Japan. On the other hand, you see, the Japanese government, the Japanese merchant, the Japanese man in the street, always knows, if he is doing something—even though the Occupation is behind him—which the United States does not like, that some man sitting down on Capitol Hill in Washington may say, "No more aid, no more loans, no more this, no more that." So you ask, where does this \$1 billion that Mr. Reubens was talking about come from?

MRS. LANGDON: I would like to ask how much of a deterrent to Communist aggression you may see in possible trade with China, which of course is a question that would apply to other Communist trade—but it is a question that does come up.

MR. BORTON: How much will it deter the Communists?

MRS. LANGDON: In aggression, yes.

MR. BORTON: If they are allowed to trade?

MRS. LANGDON: With the free world, yes.

MR. BORTON: Well, if their schedule or if their over-all plans call for the infiltration of Indo-China, more or less trade with Japan won't make any difference. That would be my guess. Mr. Pepper can answer that better than I can, but that would be my guess.

MR. T. BELL [Allentown, Pennsylvania]: In light of these papers that have been given, it seems to me that the United States could do nothing except possibly set up a Point Four Assistance Program. Is that somewhat of a reasonable conclusion?

CHAIRMAN PEPPER: I suppose we had better put that to all three of the speakers. Will you take it first, Mr. Reubens?

MR. REUBENS: That perhaps overlooks a great many other things that are possible. I think that, on the economic side, at any rate, there are opportunities for improving Japanese export trade, for freeing the interchange of currency by which trade accounts can be balanced more easily, the possibilities of direct capital investment in Japan, the whole series of other devices by which Japan's competitive power and actual performance can be improved. Point Four is one phase of it. Large-scale capital loans and investments are another side of the whole picture. But there is a wide variety of devices, on the productive side, on the trade side, and finally on the capital-movement side in which the Point Four approach represents just one element.

MR. OVERTON: In the 1920's Japan was quite liberal. There was almost a chance that it could become, in a very peaceful way, a modern democracy, and it failed. Why? Because of the world crisis of 1930,

and the parties did not have the answer but the Japanese government did. The No. 1 problem there is economic, and everything else hinges on it. It is a question of whether it is going to be aid or their own efforts, or a combination of the two—perhaps the latter. But everything hinges on that.

CHAIRMAN PEPPER: Mr. Borton, will you take that question?

MR. BORTON: I would like to argue with Mr. Overton on that last point, namely, that the chief reasons for Japan not becoming democratic were economic. But this is not the place for that.

It seems to me that from the point of view I have been talking about, there are two things we can do. One thing is, in view of the fact that these treaties with the Southeast Asian countries apparently are going to work out—the countries that resisted Japan and have resisted Japanese economic penetration most strongly—it seems to me that in any sort of economic development program for Southeast Asia we can now, using a certain amount of discretion, link Japan in with it, which as I said in my conclusion will have a direct bearing on Japan.

Secondly, from the point of view of world politics, if Mr. Hatoyama or Mr. Ogata, or whoever is going to be the next Premier, is going to be in a position to push for the recognition of the Peking régime, or push for greater trade with Communist China, then it seems to me that, in order to keep our relations with Japan on the soundest possible basis, John Allison, our Ambassador, should go to the Prime Minister and say, "Now, we don't approve of what you're doing. We don't agree with what you are doing. We are going to continue our policy of non-recognition. But we are not going to interfere."

MR. GETTLE: I would like to get a consensus as to the degree of urgency for action by the United States. The rumor factory in Washington, in many cases, seems to suggest that any proposals for a Marshall Plan for Asia will involve eighteen months of debate. Faced at the moment with a change of government in Japan, as we look forward economically we learn that collapse is not around the corner, but we are moving toward that, and balance-of-payment difficulties are sizable. Can we afford to wait eighteen months for debate, plus further delay in putting a program into action? What can be done more immediately and what needs to be done more immediately?

MR. REUBENS: Well, on this matter of timing, I think I mentioned this rather briefly, but perhaps I ought to elaborate just a little on this question of the current pressures on the Japanese economy. The curious thing is that, while the domestic economy has been doing pretty well and international relations economically were quite bad and threatening in 1953, the fact is that, during 1954, conditions have improved quite substantially, and, for the time being, the pressure on the international side—which was the most acute pressure—has now been lifted.

However, I think a long-run outlook, with a fuller perspective on the Japanese trade position, is that the pressures which have been removed for the time being are going to return. The pressures have been lifted at the moment because of the curtailment of Japanese imports, which have taken the form very largely of curtailment, not luxury imports—which are, after all, quite a small portion of the total volume of inflow—but mostly the raw-material imports, coal and oil imports, and food imports. Now, the economy can bear so much of this, and it is my belief, although the data for the last couple of months are not yet available, that what the Japanese are doing is living off stocks, using up inventories built up the preceding year when the imports of course were large, and that as these stocks become exhausted, it will be impossible to maintain the present restricted level of imports.

Also they have been able to balance things because they have been giving so much of the export goods away. On much of it they won't get paid, and they get no goods back in exchange. The Japanese call these "sacrifice exports", and that is what they are. They are induced by the export-import link system to do this. If you get raw materials, if you promised goods to certain people, you sell them to them, though you know you will not be paid, in the hope that some way or other you will get something back for them. Finally there has been a sudden step-up in the "special procurement" expenditures of United Nations forces.

Consequently, all of this shows that, from the middle of this year to the end of the year, the Japanese balance actually produced a small surplus rather than a deficit. But I think, for all the reasons I have mentioned, this is most impermanent, and sometime in 1955 the pendulum will start to swing the other way, and the Japanese may end up by the end of 1955 with a current deficit. I would say the problem will become acute sometime late next year, as far as the international side goes. The domestic pressure may come sooner because of the deflationary impact which is just now beginning to spread through the economy. I think we can probably hold off on the program for a year, in the context of the question asked. I think after that it will probably become much more serious.

CHAIRMAN PEPPER: Mr. Overton, how urgent is this problem?

MR. OVERTON: I have nothing to add to that. I would have guessed two years.

MR. BORTON: I know something of the difficulties of getting a policy decision through the United States government as does Mr. Overton. But I would like to say that we cannot do too much too soon in Indo-China. I think you can say that categorically. I would say that we ought to develop some sort of immediate spot program as far as Indo-China is concerned—which I believe we are trying to do, but we certainly cannot do too much too soon, I believe.

Referring particularly to some of the problems I have been talking about today, two years ago when I was in Japan this question of the Japanese attitude toward Communist China was not a live issue at all. It was an issue, but not a live one. Since then, the Japanese have been able to go into Communist China, and they have begun to see for themselves—at least they have seen certain things for themselves, and everybody is talking about it. This whole attitude that I was talking about this morning has developed largely within the last twelve months in Japanese thinking, or at least the intensity of it has increased in that time. What will happen in the next eighteen months is anybody's guess, but we don't have too much time to lose.

MR. NICHOLS [Washington]: If I understand rightly this discussion, population increase is one of the most perplexing problems. Have any of the sociologists or statesmen of Japan made any estimates as to the time when this population increase will come to the bursting point? And have they any long-range plans for grappling with it, either by emigration or any other means?

CHAIRMAN PEPPER: Do you wish all three of these gentlemen to answer that, or would you specify one?

MR. NICHOLS: If anybody can answer that, I will be satisfied. [Laughter]

MR. OVERTON: I will do my best. They are very much concerned about it. Actually, one ought to get about ten million people out of Japan right away, to have a real effect. But the question is, where can they go? They can send a scattering to Brazil, and they can send 186 a year to the United States, too. But emigration just seems to be hopeless. There is nobody to finance the transportation even if some country would accept Japanese emigrants.

However, I would like to touch briefly on the matter of birth control, which is now legal in Japan. Contraceptives are widely advertised in all the subways and busses in Tokyo. I don't have any idea how widespread these efforts to limit the population are, but I will tell you one horrible statistic that we came across in the Japan Society two days ago. The best information we can get on limitation of population is that last year there were over one million abortions in Japan. Abortions are now legal for reasons of health and for economic reasons. So certainly the Japanese seem to be doing something—doing it in a rather drastic way.

MR. BORTON: I would say that Mr. Overton has indicated a trend, and I believe it has been shown in the last two or three years that there is a slow leveling off. Of course, the trouble with population figures is that the effect of this leveling off isn't felt for another twenty years, and in the meantime you get a terrific bulge. People are talking about 1970, I think, as the year when the population may level off.

COLONEL LESLIE [Air Force, Washington]: My question concerns Korea, which I don't see mentioned on our agenda, although reference was made to it.

I understand that we have about \$700 million that we are trying to provide in the way of aid to Korea. It occurs to me that there might be some consideration with respect to using some of the industrial capacity of Japan for the actual application of some of that money. Would any of you gentlemen have any thoughts in that regard?

MR. REUBENS: I certainly think there is a great opportunity there. If there should be an expenditure of several hundred million dollars and let us say 25 or 30 per cent were spent in Japan, this would contribute very substantially to meeting the Japanese balance-of-payments problem, and provide a stable market. This would be very important to the Japanese.

It is a significant thing to mention here, because it is quite true it has been absent from a great deal of the discussion. Even in Japan there has not been much consideration of the possibilities of this Korean program. If we really get started on it, I would say it would help a great deal.

MR. BORTON: Just a word about Korea. You will notice that at one place I said that Japan would probably develop friendly relations with Southeast Asia, with the probable exception of Korea. The reason is that, as far as Korean and Japanese relations are concerned, you run right into personalities. Dr. Syngman Rhee is extremely unpopular in Japan. Partly it is the reaction to a former colony having become independent, and you don't like to see it getting up on its hind feet.

But it is more basic than that. Dr. Rhee, as you know, has established a fishing line with limits within which Japanese boats cannot go. He says it is halfway between Korea and Japan. In some places it is seventy miles from the Korean coast, and in some other places one hundred sixty miles. That cuts off important areas in which the Japanese have fished for a great many years. As you may see occasionally in the newspapers, there are constant incidents in which Japanese fishing boats are grabbed by Korean gunboats and are run into the harbors. This is a very bitter issue as far as Japan is concerned, and the Japanese would first say: "Before we are going to get into any sort of a triangular arrangement in which Korea is involved, Dr. Rhee is going to have to withdraw his fishing line. He is going to have to permit the return of Korean subjects to Korea who say they want to go back."

You may say they are all minor points compared to the basic economic issues. I can't help it. They are very, very important points in the minds of the Japanese. It is a far more complicated subject, therefore, than just a matter of dollars and cents.

MR. D. HUGA GILLIS [Tarrytown, New York]: I would like to ask Mr. Overton whether the democratic institutions that have been set up in Japan are actually working out in practice. Are the courts judicious? Are the electoral procedures free? Is the Parliament working out? Or is the new Constitution merely a sort of farcical superstructure?

MR. OVERTON: It is all working out pretty well, I think. Of course there has been an advent of local ward heelers and town bosses in Japan. I spoke of personal relationships in Japan. Everybody is either a master or a disciple, and people tend to follow in herds. I think in general, though, there have not been too many ballot-box frauds. Perhaps some of the parties spend a good deal of money to win an election, more so than they should. It is a matter of degree and not much different from here.

MR. JOHN SLOAN: I would like to ask Mr. Overton, in view of his statement of the return of the Zaibatsu interests, whether our economic aid to Japan might not be siphoned off by these interests, and hence add to their power and decrease the chances of democracy in the country. If that is the case, would Mr. Reubens tell us some ways that the United States might find to be sure that the economic aid went to the whole country?

MR. OVERTON: I think there is a chance that much of the economic aid from the United States will be siphoned through big companies, mainly because they know how to exercise quality controls and to deliver things on time. And they have had experience in world trade. Mr. Reubens?

MR. REUBENS: There is a technical point I think one might make about the question, namely: what do you mean by "siphoning off"? I would suggest a distinction between "siphoning off" and "funneling through". It is sometimes true that aid to any country is siphoned off by a particular element of it. But if aid to Japan is in part funneled through the big companies, as Mr. Overton indicates, the Zaibatsu may not directly enrich themselves very much, but certainly they will become more powerful.

This is not particularly a matter of American aid, but of a recovery of the Japanese economy under any circumstances—whether they recover because they show great ingenuity in increasing domestic productivity, or trade with Southeast Asia, or trade with Communist China, or whether they recover and improve their position with a combination of aid and trade and productivity. If it ends up in increased power and possibly in increased income for the Zaibatsu class, that is a problem for the general structure of the economy.

We can influence it to a certain extent, but we seldom are prepared for adequate intervention. On the whole our attempts to influence

domestic structures of countries by tying strings to our aid have not usually been well received, and in fact we have not been very successful. We have tried here and there. By influence along general economic lines, improving mobility and promoting growth, we have probably had more success than trying to funnel our aid through only one channel or industry, one industry group or leadership group, rather than another. I daresay we will have no greater success in Japan whose people are sophisticated and ingenious enough to comply perhaps with the overt form of an aid program, while pursuing their own ways, nevertheless.

This is not a counsel of despair, but it is to suggest that if we are to deal with the Zaibatsu problem, it must be dealt with in other ways than specifically to say, "We will give you aid on this basis, but we will withhold it on that basis."

CHAIRMAN PEPPER: I am sorry to have to cut this off when it is very interesting, but I am not a free agent. I get my orders from above. I was told to cut you off, since a schedule has to be met. I do cut you off, and before I do, I should like to say that this last half hour is an indication to me that you want me to thank, on your behalf, these three gentlemen for a first-rate job. [Applause.]

We stand adjourned.

PART II

ECONOMIC AND POLITICAL POSITION OF GERMANY

INTRODUCTION

FRITZ STERN, *Presiding*

Assistant Professor of History, Columbia University

LADIES AND GENTLEMEN: May I open the afternoon session of the meeting of the Academy of Political Science which, as you know, is devoted to the economic and political position of Germany.

The Academy has demonstrated both the tremendous importance and the topicality of this morning's session by displaying Yoshida's resignation the night before. This we cannot duplicate; we didn't even try. But I don't think anyone will deny the equal topicality and importance of post-war Germany. I would even go so far as to say that perhaps this past summer marked an important turning point in the development of post-war Germany. My own feeling is that the era of reconstruction that began with the currency reform of 1948 is drawing to an end, and that now one faces again the likelihood of a greater experimentation within Germany.

I am reminded that a recent and brilliant critic of German affairs has written that German political life is marked by a tone of dullness. My own feeling is that this may disappear from the German political scene all too soon. It certainly will not mark our discussion this afternoon.

Let me without further ado present Professor Nathan Reich, Professor of Economics, Hunter College. Professor Reich received his B.A. from McGill in 1925, his Ph.D. from Columbia in 1937. He has been a Guggenheim Fellow, a Lecturer at Columbia University, and the author of the important work, *Labor Relations in Republican Germany*, and the author also of a forthcoming book on German labor. He will talk to us this afternoon on "Germany's Labor and Economic Recovery". Professor Reich!

GERMANY'S LABOR AND ECONOMIC RECOVERY

NATHAN REICH

Professor of Economics, Hunter College

THE impressive record of West German economic recovery which set in in 1948, and is still continuing, has received widespread attention. The news from Germany is a succession of "highs" in production, employment, national income and other economic indexes. The cumulative magnitude of this recovery movement has been somewhat dramatically hailed as the economic miracle of the post-war period. Miraculous or not, the record is impressive; indeed, spectacular when contrasted with the scene of physical destruction, economic desolation, and utter political and social disorganization which was the Germany of 1945-46. Any attempt, however, to compress, within the time allotted to me, a respectable discussion of the extent, wellsprings, and over-all appraisal of economic recovery would in itself require a minor miracle, and would exceed the scope of the paper—and the competence of the writer.

The objective of this paper is more modest. It assumes a general familiarity with the broad contours of German economic recovery; and proposes to discuss (a) the contribution of labor to the process of recovery and (b) the extent to which labor itself shared in the recovery movement, both in their individual capacity as workers and consumers and in their collective capacity as reflected in the recovery of their legal and institutional position in German society. Even within this circumscribed area, treatment will have to be rigidly selective and rather general in nature. While I am fully aware that every generalization of necessity does violence to complex reality, it is hoped that the sacrifice of detail will be more than offset by comprehensiveness of range. Economic recovery is, of course, the product of many factors. In singling out, for purposes of this discussion, the contribution of labor, we must not lose sight of the many other factors which made their contribution to recovery. Here belong: the vigorous, single-minded and hard-driving industrial leadership; the bracing and liberalizing effect of the economic policies of the Bonn government—more notably the

stabilization of currency, the relaxation of economic controls, and the pursuit of fiscal policies conducive to expansion of private investment activities—and American aid, both in its early emergency phase of feeding a hungry population, and in its later phase of substantial financial aid for reconstruction. Here, too, belongs the fact that the Allied Powers assumed responsibility for the maintenance of public order and defense which, besides assuring internal peace, released manpower for purposes of reconstruction, and this at a time when other Western nations were engaged in the process of rearming. The restoration of financial incentive to free enterprise and free labor as factors in recovery acquires an added, and perhaps controlling, significance when we compare or contrast the mounting economic record of Western Germany with the lagging performance of Soviet Zone economy, even though the latter operates with the same German human resources, but under conditions of centralized planning and regimented labor; although a final comparison would have to allow for differences in natural resources in the two parts of Germany and for the heavy reparation payments in the Eastern Zone.

With all due allowance for all the above factors, the contribution of German labor to recovery is no less remarkable than the recovery itself; the dimensions of recovery in a way are also a measure of labor's contribution to recovery. The explanation of the nature of labor's contribution is embarrassingly simple; labor contributed indispensable skill and hard work. The German worker is putting in the longest work week in the Western world. The average work week in Germany for the past five years has been about 48 hours with a higher work week of 50–52 hours in basic industries, as compared with an average of 45 in Great Britain, 44 in France and barely 40 hours in the United States. The German worker has established a record of uninterrupted work. Strikes were few and far between. The number of lost workdays in Western Germany during the five-year period of 1949–1953 has been the lowest on record since 1899, when such records were instituted in Germany;¹ and they were a fraction of the number of man-days lost in post-war France, Great Britain and the United States. While international comparison of wage data is difficult and risky,

¹ Adolf Weber, *Der Kampf zwischen Kapital und Arbeit* (1954), p. 183.

there is little doubt that the German worker tackled the job of clearing the war debris and rebuilding the industrial plant at wages which during the early post-war period were but a fraction of his real wages in peacetime and of wages paid in similar occupations in other Western countries.

All this may be taken as a tribute to the hard work, sense of duty, and social discipline of the German worker. But this is not the whole story. The German worker did not display the same behavior in the aftermath of the First World War. Then Germany was torn by widespread unrest, regional social revolts, and incessant strike waves which dissipated large volumes of social energy. During 1921-24 the number of man-days lost to strikes was over twenty times that of the period of 1949-1953.² There was, therefore, another factor or set of factors, operating after 1945, which did not exist after the defeat of 1918. While the physical condition of Germany was much worse in 1945 than after the defeat of 1918, the social climate was much more conducive to economic recovery after the collapse of 1945. Paradoxical as it may seem, the very enormity of physical destruction of property and plant heightened the spirit of discipline and sense of urgency in tackling the job of reconstruction. The salvaging of the industrial plant became a matter of sheer survival to the mass of German workers. Furthermore, the common suffering during the war and the profound shock of national collapse helped create a community of feeling and generated a spirit of accommodation among all classes of population. The somewhat rigid class and social lines characteristic of German life have been considerably undermined by the social dislocations of the Nazi period, by the impact of the war, and by the social disintegration following the collapse of Germany. The employers were stunned by the ruin of their plants and chastened by loss of position. Many of the leading employers were politically suspect because of their close connection with the Nazi régime. Most of them were on the defensive and stretched out their hands to the workers and their leaders in the common effort at reconstruction. The good will of the workers was indispensable, not only to gain their labor at a time when employers had little to offer in the way of wages, but also because the political position of labor was stronger.

² Nathan Reich, *Labour Relations in Republican Germany* (New York, 1938), p. 152.

The workers and their former leaders were not politically identified with the Nazi régime. On the contrary, many leaders were in active opposition; many went into exile or perished in concentration camps; and one of the most prominent leaders, Wilhelm Leuschner, the would-be president of the largest trade-union federation in 1933, was executed for participation in the abortive plot of assassination of Hitler on July 20, 1944. During the early phase of the Occupation the labor leaders thus enjoyed somewhat closer relations with the Occupation authorities. Workers were among the first permitted to revive their collective organizations and thus acquired rather early a collective voice in making representations to Occupation authorities, airing communal grievances and pleading for concessions. In these efforts they were often aided by the representative of Allied labor movements attached to Occupation authorities. Trade-union organizations were thus to some extent effective in mitigating the policy of Occupation authorities.

This spirit of social accommodation was further reinforced by the widespread ideological deflation and spiritual fatigue which seized the German population during and after the war. Unlike the aftermath of World War I, when revolutionary tides ran high, when the as yet untried socialist movement appealed to wide masses with the promise of a new world of peace and plenty, and when a host of fanatically inspired knights with ideologically shining armor forged, or rather reformed, in Moscow fired the imagination of substantial segments of the working and intellectual classes, the climate of 1945 was one of utter disillusionment with any and all grandiose promises of social salvation.

Nazi ideology lay shattered in ruins. The faith in Marxian socialism was undermined by the indifferent record of the socialists during the Weimar régime—the none too effective stand of the Social Democratic party in the face of Nazi seizure of power—and by the concentrated and persistent attacks on Marxism during the Third Reich, the effects of which persist in Western Germany. The Communist party was thoroughly discredited by the intense hostility to the Soviet enemy, and by the poor social and economic performance of the Soviet régime—a lesson which millions of Germans learned from first-hand experience during their uninvited visits to Soviet territory

during 1941-44; a lesson which was further driven home by the outrageous conduct of Soviet troops during the early phase of their return visit to the Eastern part of German territory, and by the continued régime of terror and wretched standard of living in the Soviet Zone.

All these factors combined to produce an atmosphere of social tranquility which was highly favorable to the task of economic reconstruction. Some spokesmen of labor and management still look with nostalgia to those days when it seemed that the old days of traditional class conflict were gone and that in the crucible of suffering an enduring bridge would be forged between management and labor, the two major "partners" in the conduct of the nation's business. It was during these days that the practical groundwork was laid for the institution of co-determination—*Mitbestimmungsrecht*—the only significant innovation in the field of labor-management coöperation in Bonn, Germany.

The most tangible and significant expression of this attitude on the part of labor was the extremely restrained wage policy of German labor during the era of reconstruction. To be sure, here, too, there was a strong element of necessity, especially during the early phase of 1945-47. First, the Occupation authorities froze all wages. Secondly, there was simply little to bargain about. One does not bargain about wages on heaps of ruins. The imperative task was to rebuild the plant and restore job opportunity. Because of the universal shortage of goods, money wages were of little importance. The main job was physical survival. There could be, and there was, no coherent wage policy or wage pattern. To hold labor and to secure any kind of output, employers had to provide a minimum of food and material supplies and, frequently, shelter and means of transportation.

With the progress of recovery and especially with stabilization of currency in 1948, the commodity famine disappeared, and the money wage regained its function and importance. The German worker began to share in economic recovery. Since 1948, wages in Germany have been rising fairly consistently. The average hourly rate in 1948 was DM 1.03; by May 1954 it had risen to DM 1.65. Average weekly earnings for a 42-hour work week amounted to DM 43.64 in 1948, rose to DM 80.36 in May 1954 for a work week of 48 hours, and are now

probably around DM 84–85.³ In the face of a fairly stable cost-of-living pattern during that period the increases in money earnings correspond to increases in real earnings.⁴ Because of the wide differential between earnings of men and women, the wage averages for male workers alone are considerably higher. By comparison with 1948, weekly money earnings have thus almost doubled. It should, however, be remembered that 1948 was a low base, and the real weekly earning of that year stood at 69 per cent of that in 1938, which in itself reflected the deflated wage of the depression years, frozen by decree during the Nazi régime. Expressed in dollars, the weekly earnings amounted to a modest sum of \$18.50 in May 1954; or probably \$19.00 now.

This sum, however, has to be modified on two counts: one, the effective purchasing power of the German mark in Germany is greater than its exchange equivalent of 23 cents. What it is exactly is difficult to say. On the basis of personal observations and rough calculation of my own expenses during my stay in Germany last spring and summer, I would estimate the internal buying power of the German mark as the equivalent of 35 cents or roughly 50 per cent above its exchange rate, so that the weekly earnings would approach the equivalent of \$30.00 in the United States. The second upward revision is made necessary by the fairly large amount of "voluntary" social services received by the German worker in addition to his wage in the pay envelope. These have always been of some importance in the German worker's standard of living; they have grown in importance during the period after World War II for a variety of reasons: first, because of the unimportance of money wages during the pre-currency-stabilization phase, and, secondly, because of a deliberate policy of employers, inspired partly by the spirit of paternalism, and partly by the desire to gain the good will of the workers and tie their loyalty to the enterprise. The facts (a) that the amounts spent for these services were costs and tax-deductible, (b) that tax rates in Germany are progressive, and (c) that these contributions are unilateral offerings by the employers and are only rarely secured through union pressure or embodied in collective contracts have rendered

³ Monthly Report, *Bank deutscher Länder*, August 1954, p. 22.

⁴ *Ibid.*, pp. 21, 22.

this method of "buying" good will both attractive and effective. It is estimated that the total cost of these social contributions amounts to 10 per cent of the total wage and salary bill of the nation.

The relation of wage movement to changes in productivity has been the subject of wide discussion. According to a study made by the *Bank deutscher Länder* in the summer of 1954, wages appear to have kept pace with rising productivity during 1949-1953. With the average productivity of 1949-1952 as 100, wages rose in proportion to productivity until 1953; but by May 1954 the index of productivity reached 121, while the hourly wage index stood at 118.⁵ The study of the Bank as well as similar studies pursued by a number of independent research institutes reached the conclusion that a moderate upward adjustment of wages is economically feasible and if kept within the limits of advancing productivity involves no risk of an inflationary price spiral. It is this fact that was perhaps most responsible for the revived union pressure for increased wages which broke the spell of relative industrial peace and produced several large strikes in the summer of 1954. The ease with which German industry absorbed the modest wage increases of last summer confirms the correctness of the foregoing analysis.

The position of wages in German economy has been the subject of intense discussion from yet another viewpoint; namely, the wage bill as a share in the total national income. Owing to the tremendous effort devoted to the reconstruction of German plant, housing and other durable installations, a relatively large proportion of national income has been devoted to investment and a correspondingly smaller share has been available for consumption. During the years 1948-1953 the amount of DM 120,000,000,000 or roughly \$30,000,000,000 was invested in German industry, one half of this amount in new investment.⁶ With some allowance for American aid, the bulk of capital came from self-financing via high profits.⁷

⁵ *Ibid.*, p. 23.

⁶ Karl Hinkel, "Wirtschaftliche Probleme am Jahresende", *Der Gewerkschafter*, November-December 1953, p. 5.

⁷ Walter Huppert, "Selbstfinanzierung der Investitionen und Höhe der Dividenden in Westdeutschland und U. S. A.", *Der Arbeitgeber*, Aug. 20, 1954, pp. 610-12.

German trade unions, in common with other segments of society, have accepted the economic necessity of sacrificing consumption in the interests of social economy during the reconstruction period. The amount invested is an indication of the magnitude of the reconstruction effort as well as eloquent testimony to the restrained wage behavior of German labor.

Now that the plant has been substantially rebuilt, the unions are persistent in calling for a reconsideration of the wage position in the total German economy. In this they enjoy the support of groups and persons outside the unions. The article by Dr. Viktor Agartz, Director of the Trade Union Research Center in Germany, published in December 1953, which argues that under present-day German circumstances wages should not merely follow productivity but should be a few steps ahead and anticipate and stimulate productivity, attracted wide, if critical, attention.⁸ A lively discussion has developed concerning the optimum ratio of investment outlays to consumption expenditure. The questions raised are: has that optimum been reached? what are the most effective ways of redressing the ratio, now that the enlarged productive capacity is pouring forth an increased flow of consumer goods? and what are the most promising economic policies, wage-wise and other, in maintaining a new, balanced relationship? Needless to say, there is little unanimity on these highly complex economic interrelationships which are made even more unpredictable in present-day Germany because of its high degree of dependence on foreign trade and by the imminent but as yet uncertain impact of rearmament on German economic resources. The self-financed reconstruction of the German plant made possible by low wages has revived interest in industrial co-ownership by workers—an especially favorite topic in Christian trade-union circles—and led to the number of proposals for reimbursing the workers for the wage sacrifice in the form of shares in the rebuilt enterprises. The proposals found some favorable response but never proceeded beyond the discussion stage.

Parallel to the economic recovery of the individual worker, German labor succeeded in the reestablishment of its legal position and its institutional structure. In general, the new

⁸ "Beiträge zur wirtschaftlichen Entwicklung 1953: Expansive Lohnpolitik", *W.W.I. Mitteilungen*, Dec. 1953.

labor legislation follows the main pattern developed in the Weimar Republic. The law of collective contracts, the law of Works Councils, and the law of Labor Courts follow, with some modification, the provisions of the Weimar statutes. In the case of Works Councils the present law strengthens the position of the enterprise and weakens, somewhat, the rôle of the union in the election and operation of the Works Councils.

The only significant innovation in post-war Germany pertaining to labor-management relations is the widely heralded law on co-determination, the so-called *Mitbestimmungsrecht*, applicable to the coal and steel industry. Because of its novelty and pioneering nature, the law attracted unusual attention in the United States; and has perhaps assumed a greater importance than warranted by its actual place in the total pattern of German industrial relations. Briefly, the law provides, first, for parity representation of labor and management on the *Aufsichtsrat*, that is the Board of Supervision, a body which exercises broad supervisory functions over the affairs of corporations; and, second, for the election of one director—the so-called *Arbeitsdirektor* or labor director—to the *Vorstand*, that is the management committee usually consisting of three or more directors, who are in charge of running the actual affairs of the corporation. The appointment as well as recall of the labor director must have the approval of the majority labor members of the Board of Supervision.

The motivation behind the law of co-determination is rather complex; it is social and political as well as economic, and can be understood only in the whole context of social and political realities in Germany. The sponsors of the law saw in it an affirmation of the equality of labor and capital. No phrase occurs as often in German labor literature and in conversations with labor leaders as that of "equality of labor". In the more democratic climate of America, this is taken for granted; but in the class- and rank-ridden Germany of the not so distant past, labor apparently has felt the need of continuous and formal reassurance of its equality with capital. The presence of labor representatives in the high corporate councils is thus a source of both pride and prestige to labor. Less is heard now of the argument, used during the early phase of the discussion, that co-determination would safeguard Germany

against the repetition of the abuse of economic power by Ruhr industrialists, some of whom had helped finance Hitler's road to power. And, of course, there is the economic argument that the presence of men who enjoy the confidence of the workers at the top management level would redound to the improvement of working conditions. Union leadership also looks at co-determination as but the first step in a more comprehensive reorganization of German economy, based on rather vaguely conceived lines of capital-labor partnership in the management of German economic life. The movement for statutory co-determination also derived strength from the fact that the substance of co-determination was first introduced on a voluntary basis by the trustees in charge of the steel industry prior to its return to the former owners who, acting in coöperation with the unions, and with the approval of Occupation authorities, established parity representation of labor in the management of the industry. The actual enactment of the law, besides extending its provisions to the coal industry, was really a ratification of a state of affairs already in existence. That the unions were ready with a strike, if the law had not been passed, undoubtedly speeded its enactment. Finally some people welcome co-determination as a lightning deflector from socialization—a sort of *Ersatz* nationalization of basic industries.

It is extremely difficult to appraise the actual significance of this rather unorthodox departure in industrial management. The very legal status of the labor representatives is ambiguous. On the one hand, they are in a sense delegates and spokesmen of labor; on the other hand, the provisions of corporation law impose on all corporate officers, including those delegated by labor, the duty to serve the interests of the stockholders, of the company, and of the general public, whatever the last may mean. The legal uncertainty and newness of this institution made for wide discretion in the actual application of the law. The scope and effectiveness of the law frequently depend on the personalities of the labor representatives; only a company-by-company investigation could yield a reliable appraisal of the actual operation of the law. From the limited information available it is reasonable to conclude that the institution has established itself and has functioned well; on the whole, it has functioned better in the steel than in the coal industry. By and

large, the labor members on the boards of supervision have shown understanding for the economic issues involved in the management of enterprise. The fear that management members and labor members would be invariably found on opposite sides of the table, and the neutral member would exercise the controlling vote in corporate affairs, has decidedly not materialized. On the contrary, according to my *admittedly* limited information, such decisions have been the exception; in most instances decisions are either unanimous, or, when based on a majority, the majorities comprise members of both groups.

The labor director has equal rights with the other directors in running the affairs of the corporation. In actual practice his main function is the administration of the personnel department. In his rôle he does not differ much from that of a personnel director in American corporations, except that in most instances he has had some labor background and, what is important, he owes his office to the good will of labor. Apart from his symbolic value, which in the German context has real substance, and apart from contributions of the labor director in his capacity as personnel director in charge of personnel and welfare problems which are of considerable importance, the only concrete accomplishment of co-determination which was repeatedly pointed out to me was the influence of the labor members and the labor director in slowing up layoffs necessitated by temporary reduction of business, saving jobs by transfer to other work, and easing, in a variety of ways, the reduction of the labor force during business decline. In view of the fact that the past years—with some exceptions—have seen a high level of economic activity, the position of labor director has not been put to real test. What would happen to relations between the labor director and the workers and the union—who are, so to speak, his constituents—should he have to justify mass layoffs, or a reduction of actual wages, that is, the wages above the legally binding collective rates or the elimination of social services which workers have begun to take for granted, is a question nobody is prepared to answer.

Certain it is that, while co-determination enjoys the support of labor, as reflected in the union campaign of extending the application of the law to holding companies in the steel and coal industry, the law itself has somewhat receded into the

background. The original vague expectations of spectacular results have, of course, not materialized. At the third Trade Union Congress held in Frankfurt in October 1954, Viktor Agartz, the intellectual mentor of German trade unionism, spoke with less than enthusiasm about the significance of the new institution. He reminded the audience that the labor director is organically a part of management, that he owes his duty and loyalty to the company and must follow the rules of management, and even hinted about the loss to management of some of the best-informed union functionaries who were called to fill the positions of labor directors.

This brings me to another very important aspect of German labor recovery—the reestablishment of trade-union organizations. In strict chronology, the reestablishment of trade unions preceded economic recovery, and was itself an important factor in the process of recovery. The Nazi régime destroyed the trade unions' organizations, but could not erase the memories and loyalties of the millions of trade unionists. Even during the Nazi régime individual leaders maintained some liaison within Germany. Almost immediately after Occupation, trade-union leaders, some out of hiding, others returning from exile, still others emerging from anonymity into which they had fled, began to form unions with the encouragement of Occupation authorities, first at local, then provincial, then zonal and finally, by 1949, at federal levels. Today the *Deutscher Gewerkschaftsbund*—German Federation of Trade Unions—comprises about 6 million members out of approximately 17 million wage and salary earners—a ratio not much different from that of the union membership in the total number of wage and salary earners in the United States. The percentage is higher if we exclude the salaried employee. As in the United States, the ratio of organized to unorganized wage earners differs in various industries, being much higher in coal, steel, chemical and other large-scale industries, and tapering off to small fractions in small-scale and distribution enterprises. Except for one independent union of salaried employees and a few very minor splinter organizations, the *Deutscher Gewerkschaftsbund*, or, as it is usually referred to, the DGB, is the trade-union organization in Germany.

The last point deserves some emphasis, as it constitutes a

radical departure in German labor history. In pre-Hitler Germany there existed three distinct federations of unions, organized on ideological bases: the first, largest and most important was socialist in orientation; the second was organized under Christian auspices; and the third—the smallest—was committed to a liberal democratic philosophy; each federation remaining in close working alliance with its political party counterparts. The present federation, however, is a unified trade-union organization comprised of members of all political and religious persuasions. The federation is formally committed to ideological and political party neutrality. The federation consists of sixteen national unions, organized on industrial lines. With characteristic German thoroughness, German trade unions have rebuilt the vast network of educational, welfare, recreational and other auxiliary institutions which were the pride of labor, especially during the Weimar period. Considering the relatively brief period of time, the serious depletion of labor leadership, the influx of millions of young workers and of refugees and expellees without any trade-union tradition, and considering, further, the most difficult economic and political conditions of the post-war period, the reestablishment of an organizationally unified and structurally coherent union movement is a remarkable accomplishment.

But behind this facade of organizational unity there are serious problems which face the German trade-union movement. First, unification was purchased at a price, namely, the pledge of political-*party* neutrality. This does not mean political neutrality. Labor organizations have never been politically neutral; too much of the economic interest is predetermined or at least powerfully influenced by the legal frame of labor relations and by the political climate of the time. This is even more true in Germany, where the state and legislation have always played a very important rôle in the determination of labor relations. But the pledge simply means political nonpartisanship, that is, no alliance with or support of any one political party, a commitment similar to the formal—and let this word be emphasized—position of American trade unions. But this pledge is even more difficult to observe under German conditions than in the United States. The trade-union federation, even now, with its emphasis on economic interests, is

officially committed to the demand for nationalization of basic industries, and other sweeping reforms in effecting "democratization of industrial relations", whatever that may mean. All these demands, of course, can be obtained only through political action. Now, of the political parties, only the Social Democratic party subscribes fully to a program of nationalization of industry, but the pledge of nonpartisanship prevents the federation from open alliance or support of any one political party. All this breeds a sense of frustration on the part of the politically oriented trade-union leadership. Furthermore, in a country where political party lines are sharply drawn along not merely political but also moral-philosophical lines, the "coexistence" of members committed to a Christian philosophy of life with those professing atheistic and secularistic philosophies imposes stresses and strains which may not be fully appreciated by Americans who live under a system of blurred party lines and who, at times, find it difficult to discern the differences between, let us say, Republicans and Democrats.

Although there is little likelihood of a split in the trade-union movement in the predictable future, there is evidence of strain which occasionally reaches the public eye, and which is of concern to trade-union leadership. The flare-up between Adenauer and the unions in September 1953, and the vote of the trade-union federation against rearmament, in October 1954, are cases in point.

But a more serious problem is presented by the growing trend of "alienation" between trade unions and daily concerns of the worker in the factory and shop. The heart and soul of unionism is the control over job and working conditions. In the United States, for instance, the chief instrument of control is collective bargaining; the bulk of union efforts are spent in the negotiation, conclusion and enforcement of the terms of collective contracts. For many reasons, collective bargaining has never occupied the all-important place in the German scheme of labor relations. For one thing, significant areas of labor relations are fixed by law; the content of the collective bargain is therefore considerably reduced. Secondly, for reasons which cannot be gone into here, the bargaining unit in Germany covers very large areas embracing many enterprises and sometimes heterogeneous industries, for example, the agreement in the metal trade, which includes tool, machine, electrical,

and other plants. Consequently, the terms cannot be tailored to fit a particular enterprise or even a particular industry. It is obviously impossible to negotiate a meaningful wage schedule when it has to apply to enterprises of varying size, varying degree of mechanization, earning capacity, and paying ability. The wage rates are thus geared to the marginal or near-marginal producer. They are generally regarded as minimum wages, and the fixing of the actual wages over and above the collective rates is left to direct negotiations between the individual employee or groups of employees in the particular enterprise. As the unions are virtually excluded from these negotiations, it is easy to see that in the worker's mind the union-negotiated collective rate recedes into the background, and the worker increasingly looks to management for wage increases and other concessions. Employers, of course, were not slow in taking advantage of this opportunity to emphasize their rôle in granting wage increases. In view of the tight labor market in Germany, increases of wages over the collective rates served two purposes: they enabled the successful employer to attract labor and at the same time strengthened the influence of management vis-à-vis the union among the workers.

The nexus between the union and worker in the shop has been further diluted by the fact that the administration of the collective contract—a continuing round of functions which in countries like the United States gives occasion for intimate daily contact between the union functionary and the rank and file—is in Germany entrusted to the Works Council and Labor Courts. Both are statutory agencies formally independent of trade-union organizations. The Works Council negotiates agreements on work rules on plant levels. It performs important functions roughly comparable to those performed by the shop-grievance committees in the United States; it coöperates with management and public authorities in the enforcement of factory legislation and exercises some functions in the hiring and firing of employees. Labor Courts are a regular part of the judiciary which, among other things, concern themselves with adjudicating individual controversies arising out of conflicting interpretation of collective contracts. Both institutions, the Works Council and the Labor Court, have thus preempted important union functions.

While it is true that the majority of works councillors are

union members and trade unions have some limited statutory access to the Works Council and its operations, it is also true that the Works Council shows unmistakable tendencies toward asserting its claim on the worker's loyalty vis-à-vis the union. German trade-union literature reflects some anxiety over the growing assertiveness of some of the Works Councils, over the influence of management upon the Councils, and over the resulting tendency toward plant- or enterprise-consciousness versus trade- or class-consciousness, exhibited by some workers and Works Councils.

Whatever the social implications involved in this bifurcation of the collective pattern of industrial relations—and there are views which see in this diffusion of power a positive development in a democratic society—the meaning of this trend to trade unions is unmistakable: German union leaders have become increasingly aware of these looming threats to the very existence of a strong and growing trade-union movement. There is intense discussion of ways and means of bringing the union program closer to the interests of the workers in the shop. There is exploration of the possibilities of breaking down the size of the bargaining unit to the level of industry or enterprise, so as to retain control over actual wages and actual working conditions, and to help maintain close contact with the members on the plant level. There is increased emphasis on educational activities and union indoctrination of present and potential works councillors; the unions are also designating union representatives in the various shops in order to maintain close relationships with the rank-and-file worker.

The agenda and discussion of the last Trade Union Congress (1954) reflected the grave concern of the leadership over the disquieting trend of affairs.⁹ While the delegates applauded the keynote address of Dr. Agartz, stressing the ultimate objective of basic social reconstruction, the discussion emphasized primarily the need of a program of action centered on the workers' interest in wages, hours and security. There was militant talk at the Congress, but it was not an ideological militancy in the cause of radical programs of social reconstruction so much as an impassioned call for more aggressive action in pursuit of

⁹ Helmut Wickel, "Drängen auf Aktivität", *Gewerkschaftliche Monatshefte*, Nov. 1954, pp. 641-47.

more conventional wage-and-job-centered union objectives. In this shift from long-range ambitious programming to short-range programs, conceived in the immediate interests of workers, the delegates to the Congress undoubtedly reflected the dominant mood of the masses of workers in present-day Germany. In blueprinting such a program of action, the leaders will also have to take into the account this mood—a mood of moderation, sustained by visible economic progress, by a slowly rising standard of living, and by a marked reluctance to risk loss of secured gains through strike and strife. Unless shattered by depression or grave political crisis—both unlikely developments—this mood is likely to continue, and to dominate the social climate—all of which should augur well for the stability of industrial relations in the years ahead.¹⁰

¹⁰ For a more extensive discussion of labor problems in Western Germany see: Clark Kerr, "Collective Bargaining in Post-War Germany", *Industrial and Labor Relations Review*, April 1952; *idem*, "The Trade Union Movement and the Redistribution of Power in Post-War Germany", *The Quarterly Journal of Economics*, November 1954; see also O. Kirchheimer, "Notes on the Political Scene in Western Germany", *World Politics*, April 1954.

REMARKS BY THE CHAIRMAN

CHAIRMAN STERN: Thank you Professor Reich.

I would like to suggest that instead of following the pattern established by Professor Peffer in this morning's session of having questions immediately after each paper, we listen to the next paper which will deal with the subject of "Impact of German Economic Recovery on World Markets", and then have a brief question period before we turn to the next subject.

Without further ado let me introduce Mr. Horst Mendershausen who is now with the Federal Reserve Bank of New York, a lecturer at Columbia University in German economic history, a former member of the Paley Committee, and a member for two years of the Military Government in Germany. Mr. Mendershausen is the author of *Economics of War*, and a forthcoming work on *German Economic Recovery after Two Wars*. Mr. Mendershausen!

IMPACT OF GERMANY'S ECONOMIC RECOVERY ON WORLD MARKETS

HORST MENDERSHAUSEN

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EVER since Germany became an industrial state, her economy has sent out powerful impulses to other parts of the world. It has been a lively force of industrialization and economic development in times of peace and a mighty engine of destruction in times of war. Germany's economic activity has contributed prominently to the creation of the modern network of world trade. Its inventive genius, industrial discipline, and commercial keenness have held the admiration or—when the signs were set wrong—the fear of its neighbors. For good or ill, it has played a dynamic rôle in world affairs during the last hundred years.

Gap in the World Economy

Europe and the world grew so accustomed to this rôle that when German industry came to a standstill in 1945, the sense of relief caused by the end of the Nazi war economy soon gave way to a sense of loss, and of a gap that had to be filled. Whether it was a Dutch port that needed the Rhine traffic or a Greek tobacco grower who had lost his German market, a Latin-American trader who looked for German hardware and spare parts, or an Allied statesman concerned with economic and social reconstruction, little time was needed to arrive at the conviction that German economic recovery was needed for economic recovery and political stabilization elsewhere. This idea eventually gave force to the United States policy of nursing the German economy back to health.

Naturally, the German economy could not recover without renewing its links with the world. It had to be fed with imports to make a start. There had to be exports to pay for the imports. Besides the need of others for German supplies and German markets, there were the requirements of Germany's own economic structure, the need for foodstuffs and raw materials, and

* The Bank carries no responsibilities for the views expressed in this paper.

the traditional export orientation of German industries. Re-integrating Germany into a network of world trade was a prerequisite for the national economic recovery.

Foreign aid primed the pump. Military government served effectively as the first provider of imports and, somewhat less effectively perhaps, as the first export sales force for Germany. After the formation of the Federal Republic and the currency reform, Germany's government and business men pursued the matter with increasing effort; and, in what seemed to many an incredibly short time, Western Germany became "externally viable". In 1951, the sixth post-war year, her merchandise exports began to exceed her imports. The size of her external transactions came to compare favorably with that before the war. In 1953, the eighth post-war year, the volume of her exports was 58 per cent larger than that of the same area in 1938; the volume of imports, 21 per cent larger. The rebound could hardly have been greater; it was certainly far greater than in the 1920's, after the First World War.

But the reappearance of Germany on the world markets was bound to raise some anxious questions. In the early post-war years, industrial producers of Britain, the United States and other countries had gained markets formerly supplied by the Germans. British products substituted for German products in Norway, Switzerland, Turkey, Australia and other countries. In the Western Hemisphere, it was primarily the United States exporter who stepped into the place of the German. Similarly, in the domestic markets of Britain and the United States, there was substitution for imports from Germany.

The revival of Germany's capacity to export was bound to challenge these gains—if gains they were: Britain, it may be remembered, had to forsake alternative uses of her production in the early post-war years in order to supply some of the additional export markets. Capital equipment of German origin still called for the right spare parts and replacements. German brand names still rang in people's ears. Above all, the adaptability of the German producer to the customer's requirements, and of the German trader to the local ways of doing business, was well remembered. It was—and still is—contrasted with the inclination of many a British or American supplier to satisfy the local specifications and preferences only as long as they

are his own—a bent of mind that has been called “Podsnappery” in honor of the remarkable Mr. Podsnap of Charles Dickens. Would German efficiency sweep these markets, assisted possibly by sharp governmental and cartel practices?

Besides these worries of competitors over Germany's export drive, there has been some concern over excessive German demands for raw materials, for instance, during the Korea boom. Naturally, the problems raised by the reappearance of German trade changed with time. More recently, the complaints have tended to dwell again on certain features of aggressive export competition and certain obstacles to larger German imports. But any objective appraisal of the impact of Germany's recovery on the world economy should emphasize the relative ease of the mutual adaptation rather than the frictions. On the whole, the fulfilled hopes prevailed over the realized fears, at least up to this time. Germany's reentry into the world markets went more smoothly than many had expected.

Germany's Exports and Competition in the World Markets

Consider exports first. The rise of West Germany's export volume was spectacular, from 88 per cent of the pre-war (1938) level in 1950 to 158 per cent of the pre-war level in 1953. It even ran ahead of the increase in West Germany's industrial production, from 94 per cent of 1938 to 132 per cent. It came to exceed the 1938 export volume of the entire German Reich by more than 10 per cent. Still, taking that pre-war year as the start, German exports did not run ahead of the *world's* industrial production, or of Western Europe's for that matter. World production increased far more than Germany's exports over the span from 1938 to 1953, that is, by about 88 per cent as against 10 per cent.

The expansion of economic activity in the world as a whole during the war and the post-war period was far greater than the recovery of German exports. Full employment on a world scale, maintained with only minor interruptions during that turbulent time, permitted the absorption of Germany's spectacular export increases after the war.

This was a factor of first importance. If economic activity in the United States and other parts of the world had expanded

less, if public and private investment and consumption had been less active, the rebound of Germany's exports either would not have materialized or would have caused much greater frictions.

Germany was particularly well placed to benefit from the world's industrial expansion. Her exports nowadays consist in large measure of *economic expansion goods*. Exports of basic steel products and machinery of all kinds form 34 per cent of all German exports, a figure which is a good deal higher than that for the United Kingdom (27 per cent) or the United States (24 per cent).¹ The inclusion of vehicles would raise the figure to 44 per cent (the United Kingdom, 46 per cent, and the United States, 38 per cent). Containing a high proportion of economic expansion goods, German exports adapted themselves to the requirements of world-wide industrialization. There was indeed an adaptation; before the war and in the 1920's these goods made up a smaller part, and "soft" consumers' goods a much larger part, of German exports.²

The continual economic expansion of world production and trade was of real help in fitting Germany back into the world economy. Germany could step up her exports greatly, while supplying a smaller share of total world exports than before the war. This is indeed what happened. West Germany's exports in 1953, while 10 per cent larger than those of the Reich in 1938, constituted only 6 per cent of total world exports, as against 11 per cent in 1938.³ She could send her products into the expanding markets of her Continental European neighbors—they take more than half of Germany's total exports

¹ This includes iron, steel and (basic) manufactures, machinery, electrical goods, and apparatus.

² Exports of machinery, electrical goods, and transportation equipment formed 18 per cent of German finished goods exports in 1928, 28 per cent in 1936, and 48 per cent in 1952; those of textiles, leather, paper, glass, and ceramics products, 28 per cent in 1928, 15 in 1936, and 11 in 1952. This evolution is related to certain changes in Germany's economy, i.e., the relatively stronger growth of the investment goods industries and the tendency toward a greater allocation of the output of some of these industries to exports. My forthcoming book on *Two Postwar Recoveries of the German Economy* offers further discussion of these changes.

³ Or 9 per cent in 1928, *Statistisches Handbuch der Weltwirtschaft*. United Nations, *Statistical Yearbook 1952*, and *Monthly Bulletin of Statistics*, August 1954.

(58 per cent in 1953)—to Britain, Latin America, the British overseas territories, and the United States, in that order. She could supply cars and ships, generators and radios, toys, cameras and chemicals from Scandinavia to the Orient, and so contribute to greater prosperity and economic development. She could even regain a toehold in the great United States market, supplying 2.5 per cent of the total of United States imports in 1953.⁴ And as a rule this expansion of Germany's exports was not accompanied by a decline of other countries' exports, notably of Britain and the United States.

There are exceptions to this general rule, however, and it is interesting to look at the statistics of international trade and compare the percentage shares of German, British and American exports in the total imports of other countries in 1950 and 1953.⁵

In 1953, there was not a single country in the free world that did not receive a larger percentage share of its imports from Germany than in 1950. The rise of the German import share was general, from 8 to 12 per cent in the imports of Continental O.E.E.C. Europe, from 1 to 4 per cent in the sterling area, from 1 to 2 ½ per cent in the United States, from 3 to 7 per cent in all of Latin America. The rise of Germany's share was perhaps most conspicuous in the ABC countries of South America, Argentina, Brazil and Chile, where it rose from 2 per cent in 1950 to 10 per cent in 1953, and in the Middle Eastern-South Asiatic belt of countries stretching from Egypt over Syria, Iraq and India to Thailand and Indonesia.

Turning now to the percentage share of the United Kingdom in other countries' imports, we find it also increased; for example, in the imports of the United States, the countries of Central America, part of the Mediterranean area, the British and French dependencies, India, Ceylon and Burma. To be sure, the increase was less than that of the German share, except for the British dependent territories where the increase of the British share was actually greater. But the United Kingdom share declined strongly in the Latin countries south of the equator and in the Moslem countries of the Middle East and

⁴ In 1929, Germany provided 5.8 per cent of total United States imports; in 1936, 3.3 per cent.

⁵ The year 1950 was the last that showed a merchandise import surplus for Germany.

Asia. This decline was not only relative but absolute. In Latin America south of the equator, and in the countries of the Moslem Belt, imports from Britain did decline in dollar volume, while Germany's exports rose, and there is a statistical basis here for saying that German trade replaced British trade.⁶ This substitution, it may be noted, happened in two areas of the world that showed a relatively small increase of their total import volume from 1950 to 1953. In other parts of the world where total imports rose more strongly, the volume of British trade did not decline.

PERCENTAGE SHARE OF WEST GERMANY, THE UNITED KINGDOM, AND THE UNITED STATES IN TOTAL IMPORTS OF COUNTRIES, 1950 AND 1953

	<i>Import Shares Supplied by</i>					
	<i>Germany</i>		<i>United Kingdom</i>		<i>United States</i>	
	1950	1953	1950	1953	1950	1953
United States	1.2	2.5	3.8	5.0	—	—
Canada	.3	.8	12.7	10.3	67.2	73.7
Latin America	2.5	6.9	9.2	5.3	52.5	53.1
Of which countries						
North of equator	2.3	4.2	3.9	4.4	75.0	71.3
South of equator	2.6	9.9	13.9	6.4	32.4	33.2
Continental O.E.E.C. countries	7.8	11.5	9.8	9.1	14.9	10.1
Dependencies of Continental O.E.E.C. countries	.8	2.1	3.5	3.5	12.0	10.2
United Kingdom	1.6	2.1	—	—	8.1	7.6
British dependencies	1.0	3.3	26.8	30.2	8.0	5.5
Independent sterling area countries	1.5	3.8	38.8	36.3	11.6	12.5
Of which						
India, Ceylon, Burma	1.2	4.1	21.5	24.5	14.8	12.1
Rest of the world, excluding Soviet area and China	3.2	5.7	10.1	7.1	26.9	26.7
Of which						
Moslem Belt countries*	2.6	7.1	19.3	12.4	14.9	17.1

* Besides Egypt, Syria, Lebanon, Saudi Arabia, Iran and Indonesia, this grouping includes Iraq and Pakistan and therefore overlaps with the independent sterling area.

Source: United Nations, *Direction of International Trade*.

How does United States trade fit into this picture? Without going into details, I may say that outside of O.E.E.C. Europe the over-all import statistics show little that would suggest a substitution of German for United States exports between 1950

⁶ The changes of the shares in aggregate imports afford, of course, but a crude measure of substitution. They may reflect changes in the commodity composition of imports and changes in the shares of other exporting countries. A more refined statistical analysis would probably bring out instances of substitution which are not apparent from the over-all trade data or, alternatively, lead to some qualifications in cases where these data suggest substitution.

and 1953. Where Germany gained so greatly, as in Latin America and in the Middle East and South Asia, United States exports expanded too and maintained their percentage share. Where the United States share declined most visibly, as for instance in the imports of the British dependent territories, the British share rose by more than the German share, and the drop in the United States trade is better accounted for by dollar discrimination than by German competition. It is only in Continental O.E.E.C. Europe and its dependent territories that the decline of the United States trade share is paralleled pretty consistently by a rise of the German share. Germany's trade gain in Continental Europe (+ 3.7 percentage points) from 1950 to 1953 was far greater than Britain's loss (- .7 percentage point), and comes closer in size to the United States loss (- 4.8 percentage points). Here too, of course, dollar discrimination was an important factor, against a background of declining American economic aid to Europe; but it was probably not the only one. German exports of machinery, for instance, which have surpassed United States exports in Europe, showed their competitiveness in dollar markets as well. The picture may become clearer when the effects of the recent liberalization of dollar imports in certain Continental countries, for example, Holland, can be appraised.

Let me sum up this statistical review. In most parts of the world, the recent rise of imports from Germany was accompanied by a decline of the percentage import shares of either Britain or the United States, or both; but as a rule this did not mean a lower *absolute dollar volume* of imports from either the United Kingdom or the United States. However, in Latin America south of the equator and in the countries of the Moslem Belt, imports from Britain did decline in volume, and so did imports from the United States in O.E.E.C. Europe. Competitive imports from Germany probably were the main substitutes in the first two areas. Naturally, outright replacement was most visible in countries with a slowly rising or a declining volume of total imports. In O.E.E.C. Europe, the competitive element combined with certain noncommercial developments that brought about a decline of imports from the United States after 1950.

As a result of this advance of her exports, Germany is now a larger supplier of imports than Britain in Latin America

south of the equator; a larger supplier than the United States in Continental O.E.E.C. Europe as a whole; and a larger supplier than either Britain or the United States in such countries as Belgium, Holland and Sweden. Germany has now reached or exceeded her 1929 share in the imports of several European countries, notably Austria, Greece, Italy, Yugoslavia and Turkey, and several overseas countries, for example, Venezuela, Uruguay and Thailand. She is still far from having recaptured her 1929 share in the great markets of the United States, Britain, France and Japan. The comparison of the recent trade pattern with that of 1929 leads, however, to the significant conclusion that in no major area of the world, as distinct from a few individual countries, has West Germany as yet attained the share of imports that the Weimar Republic held in 1929.

Western Europe today is enjoying a very high level of economic activity, and the United States economy is not far from that happy state. Under these conditions, the competition of German exports exerts an invigorating influence. It increases and cheapens the supplies of industrial goods. It does so especially in certain underdeveloped countries. There are, of course, complaints from British, American and other competitors, but there are no real hardships. If prosperity prevails all may go well. This is true in this as in so many other respects. Germany's export drive is a boon to a busy and expanding free world economy. It could cause much trouble in a stagnant world economy.

PERCENTAGE SHARES OF THE GERMAN REICH (1929) AND WEST GERMANY (1953)
IN TOTAL IMPORTS OF OTHER COUNTRIES

Importing countries or groups	Percentage of Imports from Germany	
	1929	1953
United States and Canada.....	4.9	2.0
Latin America.....	10.7	6.9
Continental O.E.E.C. countries.....	16.9	11.5
Dependencies of Continental O.E.E.C. countries.....	2.7	2.1
United Kingdom.....	26.9	2.1
British dependencies.....	4.0	3.3
Independent sterling area countries.....	5.0	3.8
Rest of the world, excluding Soviet area and China.....	11.6	5.7
Soviet area.....	15.4	N.A.
China.....	5.2	N.A.

N.A. Not available.

Sources: *Statistisches Handbuch der Weltwirtschaft*, 1934; United Nations, *Direction of International Trade*.

The competition of German exports is, of course, not being suffered passively by American and British exporters, nor would it be correct to say that the share of German trade is still generally advancing. The lessening of dollar discrimination is benefiting American traders, armament priorities weigh now less heavily on American and British firms, and export credit is beginning to be applied more liberally in both Britain and the United States. Moreover, there is the possibility of an expansion of Japan's exports, which would bring another competitor on the scene. Regaining her full pre-war share of world trade will, therefore, be a difficult task for Germany, if actually possible. But even if the share is not regained, one should think that an expanding free world economy can fully employ Germany's export capabilities.

The Lag of Imports

Let me now turn briefly to Germany as an importer. Naturally, recovering Germany offered growing markets to producers elsewhere, but the picture was not a balanced one. German imports increased less than German exports. In 1953, they were 21 per cent above pre-war imports (1938, by volume), while exports were 53 per cent above those before the war. What is more, in proportion to national income German imports have held close to a ratio of about 16 per cent since 1950, which is a good deal lower than in the 1920's.⁷ Compared with the Weimar twenties, the German economy seems to have become somewhat more self-sufficient. This raises interesting questions. One thinks of aftereffects of Hitler's self-sufficiency policy and the like; but before looking for some specifically German factors let us first note that declining ratios of imports to national product can be found in other industrial countries as well, for instance in the United States.⁸ Germany's declining import propensity is not an isolated case. Still, it is astounding that it is the case at all. The loss of territory, of agricultural and also of industrial resources and the great increase in the density of the country's population would lead one to expect a greater dependence on imports, not a smaller one. This expectation,

⁷ The ratio of exports to national income nearly caught up in 1953 (18 per cent) with the pre-war high of 1929 (18.6 per cent).

⁸ In the 1920's, imports averaged 4 to 5 per cent of gross national product in the United States; recently they have averaged 3 per cent.

I hasten to say, is borne out indeed for imports of some basic foodstuffs. Germany is less self-sufficient in grains and nutritional fats than before the war; the United States, Canadian and other suppliers have gained a market here. But she is more self-sufficient in dairy products and probably fruits and vegetables, and her traditional suppliers of these products in Denmark and the Low Countries have therefore been less fortunate.

Some noteworthy changes have occurred in the field of raw materials. Imports of raw wool and cotton have remained rather low, because of such varied causes as the development of synthetic fibers, the more economical use of raw materials, and the relatively feeble participation of textile production in the post-war recovery. The successful development of crude oil production permits Germany now to cover one third of its greatly expanded oil requirements from domestic sources. For these and other reasons, the volume of German imports of raw materials has increased less than the volume of industrial production since 1950. Technological and structural economic factors undoubtedly played a part in retarding the rise of Germany's imports.

But, one wonders, how much of a rôle did economic policy play in this development? Undoubtedly, the government did much more in the past to stimulate exports than it did to stimulate imports, and in some fields it did not encourage imports at all. It is true that since 1951 Germany has been in the forefront of intra-European trade liberalization. This has encouraged imports of finished manufactured products, which have indeed risen relatively strongly. But other facets of policy have been less friendly to imports. High tariffs on dairy products and petroleum products had a strong protectionist effect. So had the grain-import monopoly of the German government. The great emphasis on investment goods production and the relative drop of the consumption ratio in the national product, which were assisted by fiscal policy, also have tended to keep imports relatively low. And then there have been the restrictions on imports from the dollar area, as in other O.E.E.C. countries.

Some recent developments may give a new stimulus to imports. In 1953, Germany embarked on various measures

designed to increase imports from her bilateral-account partners, for example, a reduction of the coffee tax, which should stimulate imports from Brazil. In 1954, the Bonn government relaxed the import restrictions on a wide range of dollar goods. This may lead to some rise of raw-material imports. Tariff reductions have been proposed, albeit outside the field of foodstuffs. Lastly, some recent wage increases may help to lift the consumption ratio, and with it the import ratio. It is clear that the German recovery has advanced well beyond the early phase of concern over the insufficiency of exports. Now the German central bank and the Ministry of Economics find that the stimulation of imports is the greater problem.

A New Creditor Country?

This leads us to one of the most interesting features of Germany's return to world trade: the balance-of-payments surpluses of recent years. Since 1951, Germany's earnings from exports of goods and services have exceeded her payments to other countries. In the year 1953, this surplus on current account amounted to about 1 billion dollars. So Germany has become an international lender or capital exporter. This development is interesting from various points of view.

First, the emergence of a new and enterprising creditor country is a matter of signal importance for the free world. We all know of the urgent demands for economic development and capital assistance in many parts of the world and of the importance of this matter for international political relations. Has Germany begun to contribute to the alleviation of the capital shortage in underdeveloped countries? Can she be expected to support economic development elsewhere through long-term credits and foreign investment, and through the managerial and technological assistance that usually follows in the wake?

Second, this turn in the German balance of payments contrasts significantly with the 1920's. In the 1920's, Germany never became a net capital exporter. Her capital exports were overshadowed by massive capital imports from the United States. Out of the net inflow of foreign funds the Weimar Republic financed its current-account deficit and its reparations payments. There was then no timely foreign aid and no liberality with

regard to the treatment of war debts. This is an important historical difference, and one that United States foreign economic policy prominently helped to bring about.

Third, there are some peculiarities about Germany's new creditor position that must be understood. It can be argued, and it has been argued, that Germany is an artificial creditor. Now there is nothing in human affairs that is not artificial and contrived by some means. The question really is to know how the artifices of civilization work. Do the peculiarities of Germany's international finance foreshadow an early end of her foreign lending; will they lead to the sudden discovery that Germany is not a creditor country after all?

This last point invites the first comment. If Germany's new creditor rôle somehow is not a genuine thing, we need not ponder over its international significance in the future. Four aspects must be considered briefly: Germany's foreign exchange earnings from Allied troops stationed there; the consequences of the lack of a national defense establishment in the past, and of its creation in the future; the effects of Germany's involvement in bilateral-payments agreements and the European Payments Union; and, finally, the resumption of payments on Germany's foreign debts and the normalization of her external financial relations.

1. Allied Troops

Like a few other European countries, West Germany has the economic good fortune of harboring in its boundaries a foreign military establishment which is a large paying consumer of goods and services. In 1953, Germany earned 235 million dollars by supplying goods and services to the American Army, or nearly four fifths as much as she earned from exporting merchandise to the United States. Whether we call these earnings artificial or not, they will continue for as long as there is no reduction in the size of the Allied forces stationed in the country; and they may in fact increase as Germany ceases to pay occupation costs.

2. National Armed Forces

Unlike most other countries, Germany up to now has not maintained a national defense establishment. No part of her labor force and industrial capacity has had to be diverted to

the manning and the equipment of national forces; labor and capital have remained free to produce for home consumption and exports. It is true that the Allied Occupation forces have laid claim to German products, but these unrequited services have tended to put a relatively small burden on Germany's foremost export industries, the metal goods industries. The Occupation forces have drawn, rather, on the construction and service industries. The advantage of this situation for Germany's power to export has often been deplored by her competitors.

Now that a West German army is to be built up, this peculiar advantage cannot be expected to continue much longer. While the budget outlay may not rise significantly in the near future, the drain of the army on the nation's manpower and industrial capacity will sooner or later make itself felt and will be reflected in the availability and perhaps the cost of exportable goods. The size and timing of this impact are not quite predictable, but as it materializes it will certainly handicap some exports and stimulate some imports in that fully employed economy, and thus limit Germany's capacity as a net exporter of capital. The impact on manpower will probably be the first to appear. Even now there is a shortage of skilled workers. The labor shortage may be relieved somewhat by the admission of Italian workers to Germany; the impact on the productive capacity of civilian industry will certainly be cushioned by American military aid which will provide much equipment at the start; there are hopes that increased productivity will alleviate the shortage of both manpower and capacity. But there is no escape from the conclusion that a major rearmament effort superimposed on full employment will impinge on the export surplus. It amounts, after all, to a powerful new bid for resources; and idle resources are scarce in Germany.

3. *Institutional Inducements to Capital Exports*

Turning now to the institutional inducements to capital exports, there have been allusions from time to time to ample export credit facilities by which German exports have been stimulated. But public and private credit facilities for the financing of specific exports have not been developed strongly so far. The official German Export Credit Company has provided only small assistance to exporters in the financing of

credits over periods up to four years. For export credits at longer terms, German firms had to rely on their own resources or borrow from their banks at high rates of interest. German exporters have complained much about the insufficiency of these facilities. Ordinary export credit certainly did not contribute much to the volume of Germany's export surplus.

How then was the surplus financed? It was "financed entirely by the banking system or, to be more precise, by the Bank deutscher Länder", the country's central bank. "To the extent to which the favorable balance of payments caused more foreign exchange to be offered than was demanded, additional bank money found its way into circulation."⁹ The creation of bank money was the counterpart to the credits which the German economy extended to foreign countries.

Germany has given credit to the outside world by stockpiling gold and dollar claims (a little over 1 billion dollars from 1951 to 1953) and by building up claims on her bilateral-account and European Payments Union partners (about 900 million dollars' equivalent in those three years).¹⁰ The country needed no special inducement to devote 1 billion dollars of surplus exports to the accumulation of gold and dollar assets. Germany had no such assets to begin with, and like other countries in a world of imperfect international credit it had to face the expense of acquiring them. But Germany would hardly have devoted another 900 million dollars of exports to the building up of claims on her European neighbors, on Brazil, on Yugoslavia, and on other countries with imperfectly convertible currencies, had it not been for the special institutional arrangements of E.P.U. credit and the so-called "swings" in bilateral-payments agreements; and one may say by way of a summary judgment that she had to accept these arrangements and extend credit under them if she wanted to have any sizable trade with those countries at all. In order to enjoy a certain latitude of trade, Germany had to accept arrangements under which she would become a creditor of inconvertible currency countries almost

⁹ Bank deutscher Länder, *Report for the Year 1953*, p. 12.

¹⁰ During the years 1951 through 1953, Germany increased her gold holdings by 325 million dollars, her dollar holdings by 733 million, her E.P.U. assets by 677 million, and her claims against bilateral-account partners by 204 million. Bank deutscher Länder, *Monthly Report*, July 1954.

automatically, just by selling to them more than she bought from them, and without the need or the opportunity for private parties to negotiate credit terms.

These automatic central bank credits have been called involuntary, but the word is not too helpful. The important point is that the central bank has tolerated them in the past. But it has grown increasingly reluctant to continue that process. Of late, the *Bank deutscher Länder* has pressed quite successfully for a curtailment of "swing" and E.P.U. credits, and indications are that these instruments will not be used heavily in the future. Moreover, Germany may become less eager to accumulate further gold and dollar reserves, for a continual accumulation poses internal monetary problems.

This does not mean, however, that German exporters will sell less on credit in the future. On the contrary. Now that the special institutional factors which helped to generate Germany's balance-of-payments surplus in the past are falling away, there are strong signs that ordinary export credit will become more important. It was reported recently that the German social insurance system was about to channel funds through the Credit Bank for Reconstruction into the financing of long-term export credits. This may open an avenue for the diversion to export credit of large resources that used to go chiefly into building construction. It would therefore be rash to say that the curtailment of central bank credit will lead to a reduction of Germany's export surplus. The economy may sustain the surplus through the aggressive use of more orthodox forms of foreign financing, specific loans, direct investments, or the like, and by diverting credit from other uses.

4. *Regularization of Foreign Debts—New Capital Imports*

Lastly, we have the matter of Germany's foreign indebtedness. Until fairly recently, Germany's foreign debts were inoperative and entailed no interest and amortization payments. This undoubtedly assisted in the development of her balance-of-payments surplus, in some significant contrast to the 1920's when debts had to be serviced all along. With the coming of the London debt agreement and more recently the greatly increased freedom of foreigners to dispose of German mark accounts, Germany has to stand ready to service and repay a sizable foreign debt. This will come to absorb some of her

export earnings. Once more, this is only a tendency, and the outcome is not entirely predictable. The unfreezing of the German debts may lead to increased foreign investment in Germany, that is, to an increase in Germany's indebtedness. As a matter of fact, certain increases in Germany's indebtedness have occurred while the debts were frozen; and these debt increases, incidentally, were not reflected in the balance of payments. We may conclude on this score that the regularization of Germany's international financial relations either will reduce her current-account surplus and her *gross* capital exports, or it will help increase her capital imports and thus tend to reduce her *net* capital exports.

Of these peculiar circumstances that have helped to speed the country's turn to a creditor status, therefore, the freedom from the economic burdens of national armed forces may be expected to disappear (a negative factor); earnings from Allied troops to continue (a neutral factor); institutional factors governing capital export to change (an uncertain factor, perhaps negative, perhaps neutral); and the regularization of foreign debts to impinge on gross or net capital exports (a negative factor). In sum, the trend seems to go in the direction of declining German trade surpluses and lesser net capital exports than in the recent past.

This trend will restrain somewhat the contribution that Germany can make to the economic development of capital-poor countries. Still there are good reasons to believe that the contribution will be an important one.

In the first place, German industrialists and engineers show a strong interest in enterprises in the underdeveloped countries. They have many ventures under way in such countries, ranging from large engineering jobs to oil drilling, from steel mills to automobile plants; and they are looking for more. The activities of the Germans are welcomed in many of these countries because of their industrial competence and their salesmanship, or for political reasons. Germany today is not a colonial Power and does not pursue world strategic interests that might antagonize or embarrass the local governments. These factors have strengthened the competitive position of German enterprise in the underdeveloped areas, and will presumably continue to do so. Naturally, the prospect depends

on many economic and political variables inside and outside of Germany, but for the foreseeable future it can be judged as fairly good.

Second, in the matter of capital resources for these ventures, Germany's capacity to generate *net* capital exports is not the decisive factor. Even if that capacity were to decline somewhat, as I have suggested before, it may be possible to mobilize significant amounts of capital in Germany for foreign operations provided that at the same time foreign, say American or Swiss, capital entered Germany. This thought has been recurrent in Germany for some time. The conservative investors in some capital-rich countries may invest in the more stable and familiar German economy, and the more venturesome Germans may thus find it easier to round up capital in Germany for exports to the fringes of the free world. This "feed-through" pattern had precedents in the 1920's. It poses problems, but it also holds out a promise.

Another idea that has received much attention in Germany and elsewhere is what may be called the "triangular" pattern. Let the United States stimulate the purchasing power of underdeveloped countries by investment or by imports from these countries, so as to enable them to spend more money anywhere in the world. (It is important for this scheme that their purchasing power not be earmarked for United States exports alone.) Let Germany then compete for contracts and exports, and participate in the economic development programs that the American purchases or investments helped finance. She could do so without advancing much capital of her own.

The triangular pattern may help to link a capital-poor Germany with economic development in Latin America or other unindustrialized areas. It may be hard to plan and organize things in this way, but it would be astonishing if such triangular flows did not somehow come about in a world of fairly multi-lateral trade and fairly convertible currencies. This is one of the reasons why nondiscrimination and convertibility are strongly favored in Germany today.

Conclusions

Let me repeat the main conclusions of this paper.

The rise of Germany's exports has been spectacular during the recent years. Their volume has come to exceed that of

the German Reich of 1938. But the expansion of economic activity in the world as a whole over the war and post-war period has been far greater than the rebound of German exports. Full employment on a world scale, maintained with only minor interruptions, has eased the absorption of Germany's export increases. And Germany has properly concentrated her exports on economic expansion goods which were in greater demand than soft goods.

In most parts of the world, the recent rise of imports from Germany (1950 to 1953) was accompanied by a decline of the percentage import shares of either Britain or the United States, or both, but as a rule this did not mean a lower dollar volume of imports from either the United Kingdom or the United States. However, in Latin America south of the equator and in the countries of the Moslem Belt, imports from Britain did decline in volume, and so did imports from the United States in O.E.E.C. Europe. Competitive imports from Germany probably were the main substitutes in the first two areas. In O.E.E.C. Europe, this tendency combined with certain noncommercial developments that brought about a decline of imports from the United States after 1950.

A comparison of the recent trade pattern with that of 1929, however, shows that in no major area of the world, as contrasted with a few individual countries, has the Federal Republic as yet attained the share of imports that the Weimar Republic held in 1929. Nor has she recaptured her 1929 share in the great markets of the United States, Britain and France. Whether her trade share will rise much further remains to be seen. Her exports are likely to encounter rather stiffer competition in the future than they did in the past years of acute dollar shortage and Western rearmament.

Looking at Germany as an importer, we find the country's economy somewhat more self-sufficient than it was in the 1920's, although the opposite is true for grains and nutritional fats. It is in other foodstuffs and above all in raw materials that imports have shown a surprising lag. Structural economic changes as well as trade policies have accounted for that. New factors, such as the liberalization of dollar imports, tariff reduction and in the days to come rearmament demand, may lead to greater imports.

The emerging of Germany as a new creditor country so soon after her collapse and despondency is a matter of great importance to the world economy. A variety of special factors have contributed to this evolution. United States foreign economic policy has had a good deal to do with it. Some of these special factors are now disappearing and, the development of greater facilities for long-term export credit notwithstanding, Germany may not be able to sustain current-account surpluses and net capital exports as large as those of the last few years. The building up of a national military establishment will strain her resources, encourage imports, and handicap exports, with the impact depending of course on the time schedule of rearmament. Other forces now operating may also tend to raise imports. Germany's capacity to act as a *net* capital exporter may therefore be reduced.

This does not mean, however, that the country's contribution to the economic development of underdeveloped areas will decline. Her industrialists and engineers are eager to work in those areas, and their efforts are welcomed in many countries. The capital resources that are needed, however, may have to be drawn in part from capital-rich countries in some indirect form, either being "fed through" the German economy or being tapped by means of a "triangular" pattern of trade and finance. The eagerness with which the German authorities have pursued the regularization of the country's foreign debt and the development of attractive conditions for foreign capital, and their championship of multilateralism and convertibility at the present time, indicate that these possibilities are fairly well understood.

It appears then that the reintegration of Germany in the free world economy, which American policy did so much to encourage, has succeeded remarkably well so far. The economic readjustment may not be flawless, but it looks better than most of us believed possible some years ago.

DISCUSSION: ECONOMIC POSITION OF GERMANY

CHAIRMAN STERN: Thank you very much, Mr. Mendershausen.

I would like to suggest that we now have a brief question period of perhaps no more than ten minutes, in which you can address questions to either Professor Reich or Dr. Mendershausen. And may I ask you, since we are running somewhat behind schedule, to address your brief questions directly to one of the two gentlemen.

MR. STERN: It would be very interesting if we could hear something of a comparison between West German and East German conditions as to labor and productivity, if that is possible, or if we could know about some sources of comparison—literary sources.

PROFESSOR REICH: I could not supply the material. I never got into the Soviet Zone, and printed information coming from there is of course official information, and I could not supply an answer. There is in Germany, to be sure, contact between the West Zone and the East Zone. The trade-union people come from the East Zone into the West Zone and they exchange information. But I did not study that problem at all.

MR. REED: Professor Reich, I would like to ask what the attitude of West German labor unions is toward wage increases, whether they are content to cast their wage-increase policy in terms of the over-all economic development of West Germany, or whether they are pressing for more income to the labor group specifically, rather than to the economy as a whole.

PROFESSOR REICH: As I said in my paper, German unions have, on the whole, shown a considerable degree of social responsibility; their wage policy has been one of moderation and geared to the over-all economic progress of West Germany. But of late some unions have shown impatience with the slow increase of wages. Individual workers want wage increases, and I can also assure you that trade-union organizations, labor-union leaders, etc., are pressing for wage increases. I refer you to the statement of Dr. Agartz. He advocates a wage policy going beyond productivity. He wants the wage to keep ahead of productivity and believes it should stimulate productivity, rather than follow it. But whether it would be possible, for instance, to sway German workers to pursue a vigorous wage policy, including the resort to mass strikes, is open to doubt.

There is a definite reluctance on the part of both the mass of German workers and their leaders to risk through strike whatever they gained, and there is also reluctance on the part of the unions, perhaps, to risk the calling of the strike. For instance, the recent strike in Bavaria in the metal trades resulted in rather startling developments—startling to the unions. About one half, or perhaps a little more than one half, of the workers did not respond to the strike call. Now, Bavaria may

not be a typical example. I am sure the response would have been much better in the Ruhr, and it was better in the strike in Hamburg. But there still is a remarkable reluctance on the part of the German trade unions to take that chance. Moreover, it is customary in Germany to pay strike benefits almost from the beginning of the first day of the strike, which imposes a very severe financial burden upon the trade unions. That may also be a factor of some consequence.

But the tightening labor market accentuated by rearmament emphasizes the shortage of labor, and there may be additional wage increases—plant-wide wage increases—granted by the employers over and above the collective rates. In this respect, individual groups strategically located, skilled groups, etc., may secure wage increases on a plant-wide basis.

MRS. F. LANGDON: We have been hearing about the exports of industrial products from Germany behind the Iron Curtain. I wonder if either speaker would be able to speak on how great a factor that may have been in recovery.

DR. MENDERSHAUSEN: This has been a very minor factor in the economic recovery of West Germany. German exports to the Soviet Union and the Eastern European countries, which are now her satellites, are but a fraction of what they were before the Second World War. Exports to the mainland of China have increased lately, but they also remain below pre-war levels. Finally, there is the so-called inter-zonal trade with East Germany, which is not included in the West German foreign trade statistics. Putting together West Germany's trade with the Soviet area, China, and East Germany, you come out with amounts that are quite insignificant in comparison with Germany's trade with the Western world. The total represented about 3 per cent of German exports in 1953. The recovery can in no sense be attributed to German dealings with the Communist countries.

CHAIRMAN STERN: We have time for perhaps one more question. Is there any? If not, perhaps we can wait until the end of the session, after our next and last paper, when we can have a general question period.

The next speaker, whom Mr. Mendershausen forgot to mention as our most valuable import from Germany in recent years, needs no introduction, least of all by myself. He is one of the leading historians of modern Germany. Beside his many works published in Europe, his books on European diplomacy have been admitted landmarks in contemporary historical writing. Yale University has benefited from Professor Holborn's teaching since his arrival in 1934. During the war, Professor Holborn served with O.S.S. and American Military Government in Germany. It gives me very great pleasure to introduce to you Dr. Hajo Holborn!

GERMANY'S RÔLE IN THE DEFENSE OF WESTERN EUROPE

HAJO HOLBORN

Professor of History, Yale University

IF the diplomatic agreements, concluded at the recent London and Paris conferences,¹ will be ratified, the German Federal Republic will soon begin with the building of a military establishment. During the first year 20,000 officers and 80,000 noncommissioned officers and men will be enrolled on a volunteer basis. In the second year 400,000 men are to be drafted under a conscription law. At that time the new cadres will be expanded into twelve modern divisions supported by a tactical air force and some naval coast defense units. Three years after the first draft call Germany will possess regular armed forces of 500,000 men and 400,000 trained reserves, altogether not much under a million men. Within a few years Germany will have larger conventional military forces than any other single European nation.

Speaking for a moment exclusively in military terms, the creation of these German forces will change the effectiveness of the Western military organization drastically. Even in the age of A and H bombs ground forces are needed to compel an enemy to concentrate and offer targets of destruction, and also simply for the holding of territory. So far, the NATO forces in Europe are more of a screen than a shield. Only the addition of German divisions can improve this situation and particularly close the yawning gap in the present defenses of Europe. People talk glibly about a retreat to the Rhine and forget that this would leave most of the Netherlands unprotected and, even worse, would cut off Scandinavia and the exits of the Baltic Sea from the main NATO defense area. In addition, we must try to let it never come to a war with atomic and thermonuclear weapons, in which case conventional armies would assume an even more significant rôle in security.

¹ For texts see *London and Paris Agreements, September-October 1954* (Department of State Publication No. 5659), Washington, D. C., November 1954.

Nine and a half years ago Germany surrendered and the Allies inaugurated a policy which looked beyond the immediate disarmament toward a permanent demilitarization of Germany. This demilitarization was chiefly designed to forestall, through the diminution of Germany's industrial potential, any future revival of German aggressiveness against her neighbors. The removal of industrial assets was also intended to provide reparations for the devastation which Hitler's *Wehrmacht* had wrought. Since 1945 the scene has radically shifted mainly as a result of the gulf that has opened between East and West. It is often forgotten that the shift of Western policy was caused not only by the United States. The very nations which were supposed to benefit most from the Potsdam policy were among the first ones to demand a revision, and Britain and the Benelux countries have been very active and coöperative in recasting these policies. France, too, was at an early moment convinced of the inevitability of such change, and the evolution of French opinion during these few years was remarkable in spite of great internal tensions and foreign problems.

It did not take the Western European nations too much time to realize what everybody, including ourselves, might have foreseen in 1945, that there could be no prosperous Europe if the energies and resources of Germany remained shackled. The participation of Germany in the Marshall Plan and related agencies such as the Organization for European Economic Co-operation and the European Payments Union met with little opposition. But in 1947 the French government gained the permission of the United States and Britain for the continuation of a special Saar régime in exchange for a promise of the economic fusion of the three Western occupation zones. At the time of the organization of the German Federal Republic, France pressed for the internationalization of the Ruhr but had to be satisfied with a seven-nations Ruhr commission on which in due course Germany was to be represented.

The year 1948 was one of the turning points of post-war history. Preparations for the establishment of the Federal Republic were being made together with those for the launching of Marshall Plan operations. In January 1948, moreover, the late Ernest Bevin proposed for the first time the formation of a Western European bloc which would include among its

aims collective defense. Under the influence of the death-struggle of Czechoslovakia diplomatic negotiations between Britain, France and the Benelux countries soon led to the Brussels Treaty of March 17, 1948 that established the Western European Union. The objectives of this "comprehensive alliance" were coöperation in economic, social and cultural affairs and common defense against "a threat to peace, in whatever area this threat should arise." Special reference was made to common steps to be taken "in case of a renewal by Germany of aggressive policy," but the German problem was not the main motive in the Brussels Pact.

The Western Union was to have a consultative council, composed of the five foreign ministers, a standing committee of deputies with an office in London, and a combined military organization. But the founding of a number of international organizations interfered with the growth of the Western European Union. Most important was the building of NATO. When it came into being almost exactly a year later (March 18, 1949), it practically swallowed the military organization of W.E.U.² But the launching of NATO had an even deeper effect in so far as British policy placed its emphasis on Atlantic rather than European integration, a trend that became even more pronounced after Winston Churchill took the helm again. No attempt was made to add new members to the Brussels organization, as the Treaty had hinted, nor was anything of consequence undertaken to implement the promises of economic, social and cultural coöperation.

Economic coöperation was carried on under the wider organization of the O.E.E.C. which brought together not only the European members of NATO and Germany but also Iceland, Ireland, Sweden, Switzerland and Austria. It also worked in close contact with the United States and Canada. Sparked by the billions of Marshall funds O.E.E.C. has achieved great things. Although it lacks supranational character and today also American billions it has remained a most effective and powerful instrument of coöperation in free Europe.

After the summer of 1948 social and cultural coöperation, as envisaged by the Brussels Treaty, was apparently supposed

² On the Western Union and its reorganization in 1949, see the British White Paper, Cmd. 7883 (1950).

to be taken up by the European Council at Strasbourg. But the Council has actually devoted most of its efforts to creating a political community of Europe only to find that in its present composition it cannot hope to transform itself into a confederacy, let alone a federal state. If the Council were ever to depart from federate forms, Sweden, and maybe Ireland, would join the ranks of the absentee nations, Switzerland, Austria, Spain and Portugal. But the greatest problem of the Strasbourg Council has been the attitude of Great Britain, which, incidentally, in turn affects Norway and Denmark very profoundly. The position of England is the strongest reminder of the general history of Europe, which was never a self-contained continent.³ Through the development of the Atlantic world in the last three centuries, Britain became a nation which draws as much strength from her commonwealth and colonies beyond the seas as from her relations with Europe. Understandably, Britain would prefer the development of NATO into a full confederate system to direct participation in a more closely integrated Europe. British statesmen can argue that their attitude does not reflect British self-interest exclusively but also a consideration of ultimate needs of Europe. Obviously, Europe, and particularly the present-day rump Europe, could not defend itself against the colossus of the East without help from the Western Hemisphere. It is also correct to say that an expansion of the European economy that could compare with the rate of growth of the two modern giants would require arrangements among all the Powers of the free world.

There is at least some truth in such statements, but there is much that European nations can do by themselves and must do if international coöperation on an intercontinental scale, in both economic and military affairs, is to bear fruit. Historical experience does not indicate that economic integration necessarily requires common political institutions, though it may lead to them. But without a reasonable measure of mutual trust, close economic coöperation is unlikely to obtain. The Prussian Customs Union of 1834 did rather well on both accounts. In the military field historical precedents or parallels tell us only one general lesson, namely that the growth of common loyalties is more important than that of organization. In

³ Hajo Holborn, *The Political Collapse of Europe* (New York, 1951).

recent years Switzerland has often been mentioned in connection with the European Defense Community. Usually it has been adduced to prove the technical feasibility of a multilingual army. In a small and rich country with the best school system on this side of heaven this is, of course, entirely possible. But frequently Switzerland has been quoted as a country with a multinational army. It must be understood, however, that a common Swiss nationality had been formed out of three language groups long before the age of modern nationalism. The process of transformation from a confederate to a federal state in Switzerland was not a struggle between nationalities but between cantons which were divided by religion and social interests irrespective of national lines. In this centuries-long development federal control over the armed forces was one of the last and most fought-over achievements.

On the other side there is the case of a modern empire which began with a centralized army that was turned into a multinational force. A generation later the Habsburg empire collapsed. Originally loyalty to the dynasty was practically general in spite of the rulers' identification with the German nationality. But disintegration of army and empire was not staved off by the admission of other languages because the loyalties of the individual citizens shifted to the new nationalistic ideals of the period. Let me say here on the side that the multilinguistic nature of the Austro-Hungarian army contributed very greatly to its technical weakness in World War I. But it is most important to remember that schemes of political organization must correspond to the ideals by which people live and die.

It is doubtful whether such considerations were always taken to heart in the attempts to advance European integration during the last four years. In March 1950 Winston Churchill spoke for the first time openly of the desirability of a German defense contribution at a time when it was already foreseeable that the German occupation statute would have to be revised. At this moment the French government proposed the so-called Schuman Plan for a European Coal and Steel Community. The immediate incentive of this initiative sprang from the wish to find a good substitute for the International Ruhr Commission. But in a most constructive fashion Jean Monnet and Robert

Schuman transformed Allied control into European integration. They could do this, however, only by confining the new Community to the Europe of France, Germany, Italy and the Benelux countries. This is not the place to discuss the economic significance of the Coal and Steel Community. But two aspects are relevant to our subject. The psychological effect of the establishment of the Coal and Steel Community on France undoubtedly was helpful in conducting the subsequent negotiations of a German contribution to European defense. With regard to another question, namely whether Britain ought to be more than an associate of the Coal and Steel Community, the observation must suffice that it was unobjectionable to start this economic enterprise on the six-nations basis, and even necessary to do so if one wished to gain the maximum of integration in the form of an organization endowed with certain supranational powers. But, in my opinion, the problems of membership and of supranational character assume a different meaning in the military field.

The general history of the arrangements for a German contribution to North Atlantic defense is well known. The Korean War induced the United States military chiefs to recommend the formation of German military forces, and the case was placed on the diplomatic agenda in September 1950. The move made by Dean Acheson was countered by the French proposal of a new Monnet plan, the so-called Pleven Plan (October 24, 1950). In the long negotiations, which were brought to a close by the signing of the E.D.C. Treaty on May 27, 1952, the plan was much improved militarily and politically by knocking out a number of restrictive clauses the French had inserted in the original draft. But the E.D.C. Treaty underwent new changes after the summer of 1952, in the course of which its integrative as well as its specific European character was modified. But even these amendments did not seem to the French fathers of E.D.C. sufficient assurance of passage in parliament. When Pierre Mendès-France attempted to unite the parliamentary factions on the highest possible common denominator the result proved unsatisfactory to the other five nations.

Official American foreign policy had considerable public support when the idea of a European Defense Community was accepted. Even military leaders came to like it. General

Eisenhower, as commander of the NATO forces in Europe, exerted his personal influence in favor of the project though he expressed repeatedly and with great force his wish for British accession. American statements emphasized that E.D.C. side-stepped the dangers inherent in the revival of a German army. In a European framework, it was argued, Germany could not try again to dominate her neighbors nor plot with the Soviet against the West nor pull the West into a war with the Soviet Union in order to regain her eastern territories. But it was also stressed that E.D.C. was the most direct way to the creation of a United Europe, which is the dream of all Americans and of a much smaller number of Europeans. American congressmen and senators endeavored, however, to make sure that Europeans would, if not think, at least act the right way by making material support conditional on drastic progress in European integration.

Secretary of State John Foster Dulles, who always was an enthusiast for European union, has not failed on his part to show elation over the unity aspect of E.D.C. It would not be fair to be entirely unmindful of the exigencies of diplomatic tactics. The original American backing of the Pleven Plan in 1950 was probably inevitable, and it would not have been simple to change the line after 1952. But no doubt American policy became too rigid and perhaps unduly sentimental with the result that it lost its primary leadership in the final phase. The United States has of course every right to demand from her European allies a contribution to the defense of the free world commensurate with the actual resources of the Continent, but the forms in which the Europeans will live up to this natural claim cannot be laid down as an American law but, as far as the association of European nations is concerned, must remain a matter of their own choosing. In this debate we should join as friends of court but not as judges.⁴

Our friendly interest in European union did induce us to pass over some of the serious shortcomings of the E.D.C. project. It is highly doubtful if a multilingual army of the contemplated type would be a technically effective force. But even graver are the problems of loyalty, discipline and morale. Old M.

⁴ I have discussed these and related problems at greater length in my article, "American Foreign Policy and European Integration", *World Politics*, vol. 6 (October 1953), pp. 1-30.

Herriot directed his fire in the French chamber debate particularly at Article 20 of the E.D.C. Treaty, which contained the obligation of the nine members of the European Defense Commission "not to seek or accept the instructions of any government." He called this rule "monstrous". This may be a strong expression, but it is at least unrealistic to expect people of flesh and blood to act in full conformity with Article 20.

In the same debate General Adolphe Aumeran, who will enjoy in future history books a "Herostratic" glory as the deputy who brought the French parliamentary meeting to a premature end and thereby killed E.D.C., said that German rearmament destroyed something absolutely essential for the French army in case of an attack from the East, namely "the possibility of a strategy of retreat." Maybe this remark should be considered with irony, but undoubtedly in mobile warfare, maneuvers may not always be in the forward direction. One must be skeptical whether German officers would evacuate German cities or provinces on orders from French-controlled staffs. In addition, the defense of Western Europe depends as much on coöperation with Britain and the United States as on E.D.C., and in the general planning of this defense the most exposed country, Germany, had no institutional participation in the over-all strategic direction since it was not to become a member of NATO.

Even if the omission of Germany from NATO had been corrected, as probably would have happened in a couple of years, the Germans would inevitably have tried to strengthen the relative independence of their contingent or, at a later date once they had grown strong, done their utmost to run the European army themselves. I am not convinced, either, that adequate popular control was provided in the E.D.C. Treaty. While the defense commissioners had very far-reaching authority, the powers of the ministerial council as well as of the parliamentary assembly were limited. A searching day-to-day review of the military establishments, as is customary in the British Parliament and will be necessary in Germany if the German forces are to become a "people's army" at all, could not have been expected from the assembly of the E.D.C. On the other hand, the authority of the national parliaments would not have sufficed to supplement the general debates of the European assembly.

The European Defense Community project was rejected by France. It can probably be said that many Frenchmen were against E.D.C. for wrong motives, as many Germans were for it for wrong reasons. But in the domestic struggle in France those forces prevailed in the end that felt that France would gain nothing and risk much by getting wedded to Germany through E.D.C. The veiled controls which France would have won over a future German rearmament would have been difficult to enforce against a fully recovered and militarily strong Germany. On the other side, France would have had to conduct even before this her foreign policy in more or less complete accord with Germany. The reservation of French national forces for extra-European colonial purposes was not adequate since it was a rather artificial division.

Moreover, events in Indo-China and North Africa were a constant warning that French security not only could not be protected by E.D.C. nor even by NATO but had to rely on a common global strategy of the free world. Of the latter, France was reminded both by the American aid in Southeast Asia and by the critical American reaction to her Indo-China policy after the débâcle of Dien Bien Phu. It seemed to Pierre Mendès-France fallacious to enter into a closely integrated relationship with Germany which would make French policy largely immovable without containing a safe prospect of holding Germany to a course of equal and even coöperation. Resigned moderation and optimistic pride about the capacities of the French nation go hand in hand in Premier Mendès-France's political thinking. He was willing to accept full German sovereignty including *Wehrhoheit*, that is, the German right to have a national army, to place all arms limitations on a non-discriminatory basis, and even to admit Germany to NATO membership, provided that in the enforcement of the agreed arms levels and force goals Britain would coöperate with France, while the United States would act as the ultimate guarantor. At the same time, Mendès-France trusted that he could restore French economy and social stability which will give France a strong voice in international councils. Further European integration is thereby not excluded, and the revised Brussels Treaty is now expressly devoted, if I may read it literally, "to promote the unity and to encourage the progressive integration

of Europe." But one may suspect that political integration will not make any spectacular progress.

Germany will receive full national sovereignty and membership in the Western European Union, but had to pledge not to undertake the production of ABC weapons (atomic, biological, and chemical) and a number of others, for example, missiles, strategic bombers, large warships. The Federal Republic agreed, too, to have these disarmament (or rather non-rearmament) obligations enforced, together with the general limitation on the armaments of the continental six nations through the W.E.U. of seven nations. Britain has only undertaken not to withdraw her present four divisions and tactical air force from the Continent against the wishes of the majority—that is, four—of the Brussels Powers. Of arms only British stockpiles on the Continent underlie W.E.U. inspection. Western European Union has been re-formed not only by the addition of Germany and Italy but also by the replacement of the Consultative Council by a Council of Ministers, which dispenses in certain respects with the unanimity rule in favor of a simple or, in a few cases, two-thirds majority vote. The other major addition is the creation of an agency of armaments control operating through reports from member governments and on-the-spot inspections. It must be considered an alarm rather than a security system. Enforcement would have to be decided upon by the seven governments and could hardly be executed except through NATO.

But simultaneously with the remodeling of W.E.U., the powers of SACEUR, the supreme NATO commander in Europe, were greatly extended by placing all European troops under his command and giving him the authority of location, deployment, integration, and organization of supplies. It means a streamlining of the NATO command of great significance. But the politico-military consequences are for us more important. Nobody will assume that the American commander will allow the future German army to deploy in preparation for an attack against Russia or give it the supplies adequate for such an adventure. If the Germans, however, would manage to extricate themselves from the W.E.U. organization and to build up the vast supplies required, they still would be without the A and H weapons with which only Americans and Russians are supplied. Even if the Germans were ever to get atomic weapons they

still would need the means to deliver them, but strategic bombing forces, airdromes, and radar screens are a common NATO enterprise. The future German army, equipped only with conventional arms, is quite firmly under the control of the NATO structure, although this army is not a "supranational" force but only a "combined" or coalition army.

Let us finally look at the impact of this rearmament upon Germany. The forces of democracy in Germany are today stronger than they were in the days of the Weimar Republic.⁵ A real effort is being and will be made not to revive the old *Reichswehr*, not to speak of the imperial German army or Hitler's *Wehrmacht*.⁶ I believe that with the present mood of aversion to war and soldiering in Germany we shall see a novel type of army and better civilian control by the government than in the past. This is, of course, not saying very much. It must also be admitted that the creation of a large new officer corps will further strengthen the rule of the bureaucracy and the higher middle classes which characterizes German life and permeates it with the tradition of a conservative authoritarianism. To the majority, democracy is a tolerable form of state organization but not a natural way of life. In this connection it is most unfortunate that the most reliable democratic power in Germany, the Social Democratic party, has carried its tactical fight against rearmament to such a length as to make it appear possible that the old cleavage between a German army and the democratic Left will reappear and the Social Democratic party will be deprived of its influence on the spirit and organization of a future German army.

One may also wonder to what extent the Germans have already fully understood the changed conditions of world politics, the decline of the power of Europe, and the relatively modest place

⁵ This opinion was expressed by one of the foremost students of modern German politics, the late Professor Franz L. Neumann of Columbia University, in his last publication, *Germany and World Politics*, in *Behind the Headlines*, ed. by the Canadian Institute of International Affairs, vol. 14, No. 2, March 1954. See also Otto Kirchheimer, "Notes on the Political Scene in Western Germany", *World Politics*, vol. 6 (1954), pp. 306-321, and John H. Herz, "German Officialdom Revisited", *ibid.*, vol. 7, pp. 63-83.

⁶ Some of the preparatory work is discussed in the official annual report for 1953 of the federal government, *Deutschland in Wiederaufbau*, ed. by the Press and Information Office, Bonn, 1954, pp. 41-49.

which even a restored Germany could claim. Former Chancellor Heinrich Brüning lives entirely in the past but his warning against economic, military and political union with the West and his advice to adopt a policy which permits "quick changes of position" will be listened to by many Germans.⁷ Such ideas will come to the fore more openly as the separation of the East Zone of Germany continues. It is most unlikely that the rearmament of the Federal Republic will induce the Russians to add the military potential of East Germany to that of the West, as some people on both sides of the Atlantic seem to believe. On the other hand the Russians have proved that they are not prepared to give up their hold on East Germany under present circumstances and started the rearmament of the Soviet Zone long ago.⁸ If there is any solution to the German unification issue it can be achieved only in a world-wide settlement or *détente* with the Soviet Union from which we are still far distant and which cannot even be attempted as long as the West has not reached a secure military stature.

In the meantime there will be many voices in Germany accusing the United States and the West of paying no attention to German unification and of intending to fight the war, cold or hot, to the last German. But with all this said, I must confess that I can foresee a good deal of unpleasantness but no danger that could not be managed with some circumspection and determination on the part of the democratic forces in Germany and with the good will of the free world.

⁷ Speech given before the Ruhr industrialists, published under the title, *Die Vereinigten Staaten und Europa* (Stuttgart, 1954).

⁸ The best source on the armed forces of the German Democratic Republic is the British White Paper, Cmd. 9213 (1954).

DISCUSSION: ECONOMIC AND POLITICAL POSITION OF GERMANY

CHAIRMAN STERN: Thank you very much, Professor Holborn.

We have now reached the end of the papers, the formal part of our afternoon session. In a sense we have covered in the three papers, in a scholarly manner, what we might call a gigantic awakening. Let us say we have covered the various aspects of this most spectacular recovery of post-war Germany. I would now like to ask first for questions directed to Professor Holborn, and then, if time permits, to the panel as a whole.

MRS. POLLACK: Who really and mostly wants the rearmament of Germany?

DR. HOLBORN: Well, I don't know what is implied in this question. It has been a settled policy of this country, and the acceptance of the London-Paris Treaties has been a very rapid one, for example, in Britain. I think in general the attitude in countries like Belgium and The Netherlands has been a very positive one. As a matter of fact, the only ones who are hesitant are the French and the Germans—for some different reasons. But even in France and Germany, you could not have passed the E.D.C. with any greater majority than that given in the final vote to Adenauer. It was more than a two-thirds majority in the German Bundestag.

MR. STERN: Professor Holborn, do you believe that there is any room in the present arrangements for the application of a militia system? *The New York Times* carried the news item that there are, among the German Social Democrats and other people, ideas of asking for it.

DR. HOLBORN: I am not really the most competent person to answer this question. I have read quite a bit of what has been said about it in the German papers and some of what has been replied in the military press abroad. I have not seen anything in America, I must say, nor did I have a chance to talk with military people in America. But the British have been very specific and they have said that this was a most unfeasible kind of thing, first from the military point of view, because under the conditions of modern war, this militia system could operate only with regular forces behind it, but the regular forces are part of the NATO forces and may not be present. Secondly, to have in modern war defense of localities, and so on—well, that has to be very drastic. You have to be ready to lay mine fields around your city, and to do the most gruesome task which probably militia never did in history to that extent.

Apart from that, there seems to me to be—and on this I feel a little more competent—very great danger from the democratic point of view.

If you have the regular, highly technological forces which are part of NATO, and then had on the side on a more local, let's say, provincial state level these national guards, well then you really build up pressure groups in favor of German nationalism which might be very difficult to manage, because the local and national guard commander on the German scene would, before long, give the state government the policy, I am afraid.

The thing is a little confused—maybe only to me. The reports are still somewhat spotty. For example, the last report I saw is that apparently the present commander of the so-called Frontier Guards (Germany has a Frontier Guard with 10,000 under Federal command, the other 10,000 under state governments) and this fellow apparently now wanted to get his slice of the cake. You see, this Frontier Guard apparently wants to have a share in the rearmament, and wants to take over the cadre formation. Maybe it is a little mean on my part to interpret it this way, but it looked so to me.

CADET STODDARD [West Point]: I read in the paper a notice of a rising in Germany of the *Elite* groups and uniformed armies, not necessarily the *Polizei Korps* but members of a *Partei* wearing the uniform of a particular party. It sounds a great deal like what we heard during World War I and World War II. Would you care to comment upon that and how important it is in Germany?

DR. HOLBORN: I quite agree with you. It brought memories of my youth to me, too, when I read that. The amusing part, in a way, is that it is done this time by the Social Democrats. The Social Democrats seem to have built up what they call the *Hundertschaften*, companies, or whatever, a kind of Storm Troopers, to protect their Assembly meetings. This happened only in West Berlin. And, of course, we should in all fairness say that the danger there was very great because you could not tell what the Communists in East Berlin might do. And no doubt they were bent on breaking up Social Democratic meetings more than anything else, because the Social Democrats are their deadly foes. I say, I don't think it is proper to do, and maybe the Western Commandatura, which is still in control of such matters in Berlin, should not have accepted it. But they were there. That is all I can say.

CHAIRMAN STERN: Are there any awkward questions that might be directed to the other members as well—or "difficult" questions, I should perhaps say.

MRS. LANGDON: I don't want to favor any particular part of Germany, but I wonder if Dr. Reich would be interested in commenting on the contributions of Bavaria to these developments.

PROFESSOR REICH: Well, I don't know whether it is possible to sectionalize the contribution. I did not study German development from

this point of view. All I know is that I spent some time in Bavaria and had a delightful time; the Bavarians produce very good beer, and they probably have contributed to the general welfare of German recovery in proportion to their economic resources and human material.

CHAIRMAN STERN: Are there any other questions? If not, perhaps this is the time to close the meeting. I believe I express the feeling of the group if I say this has been one of the most penetrating and most moderately optimistic discussions of post-war Germany that I have ever had the pleasure to attend. Our thanks are due to the three speakers.

The meeting is adjourned.

PART III

THE UNITED STATES LOOKS EAST AND WEST

INTRODUCTION

GRAYSON KIRK, *Presiding*

President, Columbia University

Member, Board of Directors, Academy of Political Science

OUR Distinguished Guests, Ladies and Gentlemen: It is a great pleasure to welcome you to the Fall Dinner of the Seventy-Fourth Year of the Academy of Political Science. Throughout these years—now nearly three quarters of a century—the Academy has undertaken in these semi-annual meetings to bring to the attention of its members the discussion of a great many questions of domestic or of foreign interest, questions which, whether domestic or foreign, are vital to the existence of a well-informed citizenry.

It is now precisely thirteen years ago today since, at the request of the President of the United States, the Congress by resolution acknowledged the existence of a state of war with Japan. And three days later, on the 11th, similar action was taken with respect to Germany and Italy.

Now, in these intervening thirteen years we have had the experience of a major war fought on two fronts, thousands of miles in each case from our domestic frontiers. We have had the experience of great sacrifice and the experience of ultimate victory. But these cataclysmic years have brought about a profound reorientation in the thinking of most American citizens. Prior to the Second World War most of our fellow citizens clung resolutely, even desperately, to the notion that it was better under most circumstances for us to go it alone in the world; that it was better for us to utilize, if need be, for our defense the immense potentials of our manpower and industrial power, but to avoid permanent political ties or commitments which might limit our power and freedom of decision.

But in these intervening thirteen years since that fateful day when we embarked upon our war with Japan, this revolution in American thinking has brought about, first of all, a general agreement—by no means universal, but certainly preponderant—that we would be foolish in the future voluntarily to try to go it alone, and that the future security and safety of this country must rest primarily upon our ability to maintain permanent association arrangements with other reasonably like-minded peoples.

If someone thirteen or even ten years ago, speaking here to this audience, had said to you that within that period of time the United States would have entered into permanent, virtual alliance relationships with our neighbors to the north and to the south, with some of our neighbors on the other side of the Pacific, with the states now represented in the North Atlantic Treaty Organization, and specific commitments with a great many other states in the world through our membership in the United Nations, you would have regarded this—and with propriety—as simple moonshine. Ten years is a short time in the history of the world. It is a short time in the history even of a single country. But it has been a time in which this profound revolution in the attitude of the preponderant thinking of the American people has taken place. And few today question the wisdom of these arrangements.

We have yet to succeed in working out satisfactorily the technique of living permanently in an alliance relationship with many other states, however democratic or like-minded or free they may be. We have yet to work out the technique of presenting a sufficiently strong common front to those states and those forces which are opposed to us. We hope that we will develop both of these techniques in time to prevent ultimate and major catastrophe. But one thing is sure: Whether we are successful in averting the catastrophe of another major war—and we hope we will—whether we are successful in working out the technique of permanent alliance relationships, we do now realize that there can be few happenings of a political or economic or military nature of any importance anywhere in the world which are not of major concern to us. And this was not so a few years ago.

In the early years of the history of this country we were rightly somewhat unconcerned with affairs in Europe, and only when,

as in the early 1820's, there threatened European intervention in this hemisphere, were we concerned enough to launch our defiance, as in the case of the Monroe Doctrine. But it was much, much later when any of us became convinced that the welfare or future, much less the security, of the United States could be seriously involved in any happenings on the other side of the world.

Now, however, we have given up both of these ancient notions because, though they may have been true at one time, they are no longer true. Today, there is virtually no place in the world about which we can safely afford to be unconcerned. And of the places which arouse our concern, ironically enough, two of them of greatest present-day significance relate to the major Powers with which we were at war a decade ago.

Because that is the case, it is quite fitting that the Academy should have chosen for the meeting this fall to talk at the same time about the problems of Japan and the problems of Germany. Since both countries have problems which are similar, and since both are of great concern to our own future security, it is well that we examine them together.

I know that I am speaking for the other members of the Board of Directors of the Academy and for the membership at large when I express to those who were good enough to participate in the morning and afternoon programs our warm gratitude and our appreciation for the courtesy they have done us and the contributions they have brought to us which will be available through the PROCEEDINGS to all the membership.

Tonight, pursuing still further our inquiry into matters of this kind, we turn first of all to the Far East. Our first speaker will deal with "The Asiatic Question and Its Relation to Europe".

You are all well familiar with our speaker, General Donovan. For many years he has been one of the leading figures in the public life of this country. It is now nearly forty years since he undertook his first official public mission as a member of the American Relief Commission of the Rockefeller Institute to provide aid for the people of Poland.

His brilliant military career with the Rainbow Division in the First World War was so striking that he was one of the two Americans to be awarded our country's three highest honors,

the Distinguished Service Cross, the Distinguished Service Medal, and the Congressional Medal of Honor.

After the First World War he accompanied the then Ambassador to Japan to investigate the Admiral Kolchak government in Siberia. Then year in and year out, dividing his time between the responsibilities of private law practice and a wide variety of public duties, he has served our people well. During the 30's he headed many missions, most of them secret, but important nonetheless. Then in 1941 he was called upon to head what became O.S.S., and his contribution to the security of this country was of the first order of magnitude. And at the end of the war when O.S.S. became in modified form a permanent part of the security apparatus of the United States, this was made possible by the foundations which General Donovan had laid.

Pursuing still further this career of an expert troubleshooter, it is only natural that he should have been asked by President Eisenhower to go to Thailand as our Ambassador, because if there ever was a spot which in these days needed the intelligence, the cool-headedness and the resolute encouragement of a firm man, it was that situation. And I think I am not exaggerating when I say the transformation in the situation that has taken place in Thailand during the year and a half which our speaker served there as Ambassador is a tribute above all others to the intelligence and energy which he brings to any great problem that confronts him.

So, ladies and gentlemen, for our first speaker tonight it is my great pleasure to present to you William J. Donovan, to speak on "The Asiatic Question and Its Relation to Europe". [Applause]

THE ASIATIC QUESTION AND ITS RELATION TO EUROPE

GENERAL WILLIAM J. DONOVAN

Former United States Ambassador to Thailand

TO us in America the Asian question is: "What are Communist China and Soviet Russia going to do?" How far will they go in their aggression? To the Asians, this is not "the Asian question", although it is a question many of them are also asking. To them, the Asian question is tied in with the issue of nationalism and self-assertion. Many of them are still thinking as recently liberated colonial peoples, long dominated by Western Powers. Of course this is an oversimplification. We cannot speak correctly of a single "Asian question" nor, for that matter, of a single Asia. There are many Asias—each with its own point of view, its own problems and questions. There are many nations in Asia, many political groups, many ethnic and racial groups, many economic interests.

We must start with the assumption that our major problems are not necessarily their major problems. They have different points of view from ours concerning communism and the U.S.S.R. What are we doing to understand Asia and Asian problems? We must present our needs and our interests in the light of their problems. In the last ten years, we have watched a course of dynamic changes in Southeast Asia—the key strategic position across the main lines of communication between Europe and the Far East. This area has a population of some 600 million people—four times the population of the United States, three times the population of the Soviet Union, twelve times the population of the United Kingdom.

Those changes are the continuing repercussions of that "shot heard round the world" which a New England Minute Man aimed at a representative of colonialism in 1776. We have learned since then to understand and to cherish the culture and history inherited from Europe. This appreciation was only possible after we had become confident that our independence was secure. It is in the context of the colonial past that we must interpret the bitterness and distrust we find inherent in many of the new nations of Asia against their former governors.

There are two approaches to policy: one short run, one long run. Far from being exclusive, they must be mutually supporting.

We found in Europe that our objectives were reasonably long term. As a result, the United States never lost sight of the ultimate objective of European unity, and our policies on the whole have therefore been successful. The Marshall Plan, the North Atlantic Alliance, and now the Paris Treaty have helped reestablish the balance of power in the West.

In the Far East our policies have not had that long-range point of view. Too often there, we have been forced to respond in haste to an immediate military thrust of attempted Communist expansion. For that reason our policies have seemed conflicting not only to our friends but to ourselves. For instance, we excluded Korea from our "defensive perimeter". Yet we fought a long, costly and indecisive war to keep South Korea free. In Indo-China, we announced our intention to resist any further Communist advance. The time for decision found us unready, and by the middle of 1954 we had to accept an Agreement at Geneva which now puts the survival of Viet Nam in doubt.

Our partnership in Europe creates problems and paradoxes for our policy in Asia. The interests of the European continent are not always the same as our own interests. We cannot ignore the fact that, when Dien Bien Phu fell, it carried a government in Paris with it. Yet on the same occasion we were concerned lest the peoples of Asia associate our interests with those of the colonial Powers. An example is our aid program to Indo-China which, until a few months ago, was operated through French channels. It is no secret that only American dollars enabled the French Union forces to remain in Viet Nam. That aid was extended to give resistance to Viet Minh aggression. But this honorable goal did not prevent the defeat of French arms. In fact, it encouraged delay with regard to European integration.

Communist propaganda associated us in Asian eyes with an archaic and detested form of colonialism. This was certainly not our intention. We had hoped that by supporting the French forces we would gain time to allow Vietnamese nationalism to gather strength for its struggle against the well-organized Communist-supported Viet Minh. Our military aid was doomed

to be ineffective as long as the needed political and economic reforms were not forthcoming. We believed in the cause of Vietnamese nationalism enough to invest nearly 2 billion dollars of assistance.

We did not underestimate the sacrifices and difficulties which confronted France as a result of the Indo-China conflict. A frank and honest conference with France and interested Asian countries would have done much to dispel the suspicion of our motives. They would have seen that our compelling thought was the preservation of the opportunity for Viet Nam to become an independent nation. Instead, Asian observers concluded that our interest in a European Defense Community was paramount and that to secure that objective we were prepared to join forces against Asian nationalism. This is an ironic twist of history for a country which less than a decade ago risked the esteem of its European friends by supporting the independence movements in India and Indonesia.

One of the main criticisms Asians address to us is that we seem to treat Asia as an appendage of Europe. There is some truth in this criticism. Although we recognize the importance of the Far East—and sometimes even become emotional about it—there is still a tendency to approach our relations with Asia as accessory to our relations with Europe.

The same Communist conspiracy faces us in Europe and Asia, but in each area this conspiracy takes on a different form. There are substantial differences in every major field—political, economic and military. In Europe in good measure, we share a common culture with long-established national states, the structure of which is not unlike our own. A very different situation prevails in Asia. Nationalism is the dynamic unifying force. A new leadership began to emerge early in the twentieth century. With great skill it used the rising tide of popular discontent to further the cause of national independence from colonial domination. World War II was a powerful stimulus to the colonial revolt.

We should be ready to support Asian nationalism wherever it is clearly manifest. In the East this is the reality of tomorrow. The Asian leaders are only beginning to recognize that independence is not the final word. They must now tackle the complex

problems arising out of the revolutionary changes in Southeast Asia.

We have used our support of nationalism as an expression of policy. At the same time we have urged the colonial Powers to associate themselves with us in a crusade against communism.

In our political efforts we must be careful to dispel any impression that we are seeking to take the place of the former colonial governors. What is necessary is that we ask the countries of Asia to be our partners in economic and military assistance. This we have successfully accomplished in Europe.

In the military field, we are also inclined to carry over the experience gained in Europe to the challenge in Asia. Although the threat is the same to both continents this is not so with Communist tactics. Direct aggression is the principal threat in Europe. In Asia with the exception of Viet Nam and Formosa, the Communists may be relying on their subversive forces to gain their victory. For that reason the theory of massive retaliation is not a completely effective answer. It can hardly be applicable where there is no industrial mass to retaliate against. Nor should we expect NATO to be our prototype because there is no counterpart in Asia to that military strength of England, France and Germany which gives substance to our defense in Europe.

If the new nations of Asia can maintain their own internal stability we have won a substantial victory. It is in no one's interest to allow our military assistance to be taken for granted. We cannot help other countries unless they want us to help them. It is the task of our leaders to seek first a basis of mutual confidence and good will before offering our armies and our resources.

We were informed yesterday that our government would submit to the next Congress a program for economic development in Asia. It was said that the principle of economic aid reflected a recognition that the struggle between the free and Communist world had shifted "to some extent"—for the time being perhaps—"from military to economic competition". The national composition of such an aid program is an extremely delicate matter. The inclusion or exclusion of certain nations must be determined by a number of factors. These factors are political and psychological as well as economic. Perhaps not the least obstacle is the unwillingness of certain countries in that area to work together under present circumstances.

Red China leads from strength in that part of the world at this moment. She has the political advantage of her recent victory in Indo-China and the psychological advantage that she is an Asian nation. In the economic field she can impress her neighbors with an impressive rate of industrialization. It does not matter that this is being accomplished at great social cost, with enormous human hardship and sacrifice. To offset this approach to the people of Southeast Asia, the West must present its competing programs.

In the field of economic assistance it should be remembered that the conditions in Europe that brought the response of the Marshall Plan were very different from those which confront Asia today. Europe was a mature, industrial economy whose production capacities were shattered in the destruction of two world wars. Asia, with Japan the exception, has but the bare beginnings of an industrial fabric. Her basic ventures are agricultural—and even those are built on methods which centuries have left unchanged. In Europe, we faced the threat that communism would come to power through the dissatisfaction of unemployment and disregard of progressive welfare measures; in Asia, the populations are concerned with equitable land reform and the results of public health programs. The great emphasis that writers put on the problem of food shortages in Asia must be looked at against a background of the basic problem of distribution. Thailand, for example, would like nothing more than markets for its rice. It is not reasonable for us to distribute our surpluses of rice and wheat in Asian markets and then wonder at an imbalance in the economy of Thailand because she cannot dispose of her growing bulk of rice which has always been a major export and dollar-earner.

Economic development should not be considered the panacea which will stop Communist subversion in Asia. Blind economic development destructive of existing cultural patterns may be itself a source of instability which the Communist conspiracy can and will exploit.

The effectiveness of our aid programs in Europe—but especially in Asia—cannot be measured by their cost. Nor can technical assistance be considered the solution to every problem. What is important is not "how much" but "how". The main issue is the reconciliation of new skills and ancient cultures. This again is a problem best considered and solved by Asian effort.

Theirs is the responsibility to fix the pace for raising the standards of living for their countrymen: and they can best suggest the means to integrate the methods of twentieth-century technology into the ways of their distinguished cultures.

In seeking an approach to reconcile the interests and conflicts between Europe and Asia we would do well to remember the course President Eisenhower so eloquently defined last week. It is "the courage to be patient" while making certain "that our efforts to promote peace are not interpreted as appeasement or any purchase of immediate favor at the cost of principle."

Our global responsibilities have involved us in a substantial way in both Europe and Asia. What we do or fail to do in Europe is of crucial importance but we will mistake the future unless we regard our decisions in Asia of at least equal importance. [Applause]

REMARKS

DR. KIRK: Thank you, very much, General Donovan.

Among the many wise things which were said to us in the last few minutes, two things stand out in my own mind, and I think they are worthy of our continued attention.

One is a valuable corrective to our oversimplified thinking when we were told that a great many of the events of the last ten years have not come about simply because of the development of Communist imperialism, but have come about because of the profound changes in the world, changes which would have placed these problems on our doorstep—perhaps not quite so insistently—had there been no imperialism from the Kremlin. The other is the warning against an attempt to oversimplify solutions. What General Donovan has said to us about the limitations of economic aid as a simple panacea to all our problems merits, I think, our sober and mature reflection.

But just as the problems in Asia confront us, so do the problems in Europe. We had a German problem long before we were worried about Russian communism, and we have a German problem today.

Our second speaker, who is to speak to us on the vital question of "Germany and the Future of Europe", is a man whose career of public responsibility we all honor and respect. He was born, I am told, in New York City. But apparently he didn't like our city and at an early age he went to Montana. There, following his educational career in the Montana School of Mines and Montana State University and the University of California, he had a unique set of experiences in that he has served in the United States Navy, he has served in the United States Army, and he has served in the United States Marines. He has served also as a mining engineer.

I welcome him as a fellow political scientist, because he taught for a decade as a Professor of History and Political Science in Montana. Then, moving into the field of politics, he represented the First District of Montana in Congress from the 78th to the 82nd Congress, and in 1952 he was elected a Senator from the state of Montana.

Other assignments include that of a special representative of the President in China in 1944; a representative of the United States at the 6th Assembly of the United Nations at one of the Inter-American Conferences, and a member of the Foreign Relations Committee of the Senate. On this latter rôle he has shown a tremendous driving desire to serve this country responsibly by seeking to become informed about the major issues which must, in the natural course of affairs, be brought to the attention of the Senate Foreign Relations Committee. In this

respect, within very recent months, he not only has traveled in the Far East and Southern Asia, but has also spent a considerable amount of time in Western Europe studying the problems of economic development as a proper corollary to the degree of political unification which has been achieved through NATO and the Council for Europe. He has had the wisdom and the farsightedness to realize that military and security unity in the long run must be underpinned by economic development of a reasonably unified kind. Otherwise, all our efforts will do no more than to buy time.

So, Ladies and Gentlemen, it is with great pleasure that I present to you the Honorable Michael J. Mansfield, Senator from Montana, who will speak to you on "Germany and the Future of Europe". [Applause]

THE HONORABLE MICHAEL J. MANSFIELD: Mr. Chairman, General Donovan, Ladies and Gentlemen: It was a pleasure, Mr. Ambassador, to listen to that fine talk you just gave, because I think you put a lot in a few pages. Certainly what you had to say is worthy of the most serious consideration of all of us.

GERMANY AND THE FUTURE OF EUROPE

THE HONORABLE MICHAEL J. MANSFIELD

Member, Foreign Relations Committee
United States Senate

IN the interim between the rejection of the European Defense Community by the French parliament and the London-Paris Conferences, I had a conversation with Chancellor Konrad Adenauer in Germany. Mr. Adenauer made a significant comment in discussing the collapse of E.D.C., a comment which he has since repeated in public. "The best Europeans", the Chancellor said somewhat despairingly, "live in the United States." The remark expressed the disappointment of many dedicated Europeans at the failure of E.D.C. It was also an acknowledgement of the strenuous but unsuccessful efforts of this country to secure its acceptance.

It seems to me that the observation, pointed as it is, obscures one important fact. Removed as we are from the fears and pressures of the continent, it is easier to be a dedicated "European" in the United States. It is easier to ask and even to ask with some impatience, "Why don't *they* get together?" It is as easy as a Member of Congress urging the elimination of the tariff on wool, provided his district is in the city of New York.

I am afraid, therefore, that I must take issue with Chancellor Adenauer's observation. His great contribution to the cause of Western unity in itself is evidence that the best Europeans live, not in the United States, but in Europe. If that were not the case the future would hold little promise for the free nations. For it is in Europe that there has unfolded one of the principal challenges to freedom in our times. It is in Europe that it must be faced and it is primarily by Europeans that it must be overcome.

The challenge is the challenge of unity. The nations of Western Europe are confronted with the necessity of developing a pattern of progressive integration within the larger but looser unity of the North Atlantic Community. If Western Europe does devise such a pattern, we may look forward to an era of peace and material progress and we may anticipate a steady

growth of those concepts of the freedom of man which give meaning and dignity to human life. If Western Europe fails, however, the future promises little more than an extension of the decade of fear through which we have just passed. Sooner or later, in the years ahead lie inevitable war, an age of chaos, and an enlargement of the totalitarian void which already spreads over vast areas of the globe. It is possible that the price of failure may even be the extinction of human life itself.

I have deliberately stated the challenge to Europe in the positive terms of unity rather than in terms of defense against the Communist threat as it is usually defined. I do so with a full awareness of the destructive implications of communism. Few movements in history have been more erosive of the foundations of our civilization.

The growth of totalitarian communism, however, is more a measure of the weakness of the free nations, particularly in Western Europe, than of the inherent strength of the Communist ideology. I think it essential to recognize and to emphasize this distinction. Failure to do so is to concede the superiority of totalitarianism over freedom as a motivator of mankind, a concession which I, for one, cannot make.

Communism has intensified the need for European integration within the larger community of free nations. It has highlighted the challenge of unity that confronts the West. But only a dangerous misreading of history would suggest that communism created the need. Even if Communist pressures should abate—as they well may do for the moment—the urgent necessity for unity would remain.

Twice in this century, our civilization has skirted the edge of doom. Twice our heritage has been tossed recklessly into the fires of war. Both conflicts began within Western Europe and both spread great damage in that region. Communism fed on these conflagrations. After the wars had burned themselves out, the Communists probed among the charred and smoking ruins. They tore down nations and ideals which had been severely weakened by the conflicts; some might have been salvaged had they not been subjected to this second onslaught. That is the destructive rôle which communism plays in the contemporary world and we must not lose sight of it. By the same token, however, it is essential not to permit this destruc-

tiveness to obscure the fact that the greatest damage to the free nations has been largely self-inflicted. It has resulted from their own inner disunity, and particularly the disunity of the Western European nations.

Both great wars of this century, in the first instance, were attempted suicides on the part of Western Europe. The critical danger of communism came after, not before, these massive assaults which the region launched upon itself. And only as a way is found to cope with tendencies of this kind will the free nations develop real security against communism and other forms of totalitarianism.

The most dangerous of these tendencies is associated with the inability of modern Germany to find a stable place in the common destiny of Western Europe. Many explanations have been offered for this phenomenon. Historians have attributed it to the policies of the Germans, the French and the British, and to numerous other causes. Regardless at what door or doors responsibility is laid, however, there can be little doubt that this failure more than any other has gnawed at the vitals of our civilization during the last half century.

It is to this problem, the problem of Germany's place in the European community, that I wish to address the main body of my remarks tonight. More specifically, I want to consider with you the solution to the problem which is proposed in the recent London-Paris accords. On this solution hinges the future of Europe and, in a larger sense, the fate of all the free nations.

The London-Paris accords are primarily mechanisms by which Western Germany is to be brought into the Western European and North Atlantic communities on what is hoped will be a stable and enduring basis. In this respect, in principal objective they do not differ substantially from the E.D.C. The differences that do exist are essentially those of method and degree of integration. In the present accords, the links are not as tight as were contemplated in the E.D.C. They are not as clearly the ties of a supranationalism.

The retreat from that ideal has been deplored by many in Europe and in this country. It is understandable that men of the caliber of Spaak of Belgium and Schuman of France who had done so much to further Europeanism should be deeply

disappointed by this development. The concept, however, is not dead and will not die. Europeanism is a force which will make itself felt in everything that happens in Europe. But Europeanism, like all great ideals, to grow strong must be rooted in the acceptance of the people who are to live by it. And the simple fact is that European integration of the depth and degree contemplated in E.D.C. was not possible at this time.

At the London-Paris Conferences, therefore, a shattered promise of far-reaching unity was exchanged for a new promise of lesser dimensions. In substituting the recent accords for the E.D.C., the Europeans did not abandon the ideal of Europeanism nor did they give up anything which had actually been achieved toward its realization. The retreat, if it may properly be called that, was from a hope not an actuality. Viewed in this light, the present agreements are not necessarily a step away from unity. They may yet prove to be a step toward it.

The speed with which the London-Paris accords were reached after the rejection of E.D.C. is a tribute to the Europeanism of the present leaders of the Continent and particularly to Adenauer, Eden and Mendès-France. It is also striking evidence of the vitality of the European idea. Most significant, perhaps, it may indicate widespread recognition in Europe that the time to move positively toward integration is now or never.

Under the terms of the London-Paris accords the people of Western Germany will regain sovereignty and so achieve co-equal national status with the other free nations of Europe. Western Germany will adhere to the Brussels Treaty of 1948, thereby becoming a full-fledged member of the Western European community. The Germans will also enter directly into the larger grouping of the North Atlantic Treaty Organization. Each of these provisions is an interlocking part of a grand design. Taken together they hold the promise of providing a stable and more permanent place for Germany in the Western world.

Also involved in the design, however, is the rearmament of Western Germany. This question, more than any other, has heretofore stood in the way of the integration of Western Europe. To put the problem bluntly, many Europeans, including Germans, have had doubts as to the wisdom of German rearmament.

These are not solely "Communists' doubts", the purposes of which are clear—to keep Western Germany defenseless and ripe for totalitarian absorption. They are for the most part the doubts of sincere people who in this generation have learned firsthand to associate the appalling devastation of war with a militant Germany on the march. The grim reminders of this association are still to be seen in many cities of Europe. A decade of rebuilding has not fully obliterated the scars of war.

From our vantage point in the United States we should not dismiss such fears lightly. It is to the credit of the European countries that in spite of these fears they have recognized the more immediate and overwhelming menace of Soviet expansionism. They have understood that a disarmed Germany is a greater danger to peace than a Germany with some capacity to defend itself.

In the London-Paris accords, Western Europe now has a plan for West German rearmament with certain safeguards. A new German national army of 500,000 men will join those of other Continental Powers under the NATO commander in the common defense of the West. Western Germany pledges never to employ these forces to change existing frontiers or to achieve unification with Eastern Germany.

There are technical safeguards against a resurgent German militarism in these accords which take the form of maximum level of forces and prohibitions on the manufacture of certain types of offensive armaments in Germany. Perhaps the most significant deterrent, however, is that provided by the United Kingdom. The British have committed four divisions and a tactical air force to the mainland of Europe. In so doing they have clearly bound their future with that of the Continent for the first time in centuries. It was a transcendent decision and they made it courageously and unequivocally.

For the *first* time in modern history the three Great Powers in the core of Europe—the United Kingdom, Germany and France—will be linked in specific arrangements for the common defense. These ties are reinforced by the pledges of continuing concern in Europe's future which the President and Secretary of State have made on behalf of this country. *Partnership*, I am glad to say, is now the keynote in our relations with the Western European countries.

That, in bare outline, is the substance of the London-Paris accords. In part, the significance of the agreements lies in the provision they make for the creation of twelve German divisions. I do not mean to suggest that this increase in the armed power of Western Europe will be decisive in discouraging a massive Soviet assault on that area. The deterrent to aggression of this type remains, as it has been since the end of World War II, the superiority of the total strength of the free nations as against that of the Soviet bloc. In this broad equation of power, the German divisions will not make a substantial difference, for total strength is measured not only in conventional military factors, but in atomic, economic, diplomatic and others as well.

In many ways we have been prepared for a decade to deal with a massive Soviet assault, a test of total strength. In the present Administration the phrase "instant retaliation" has been coined to describe at least the atomic aspect of these preparations. But, while the Communist advance has continued in a confounding fashion, there has not been a situation in which to retaliate instantly.

What is the explanation of this dilemma? It is simply that the pattern of post-war Soviet expansionism has not been by massive assault which we have spent billions in preparing to meet. Rather, the pattern has been, as I mentioned previously, an expansion by scavenging among war-weakened nations. It is an advance carried out largely, not by Russian soldiers—few have died in combat since the end of World War II—but by millions of the disinherited, the discontented and the driven of many lands who have been caught up in the growing web of international communism.

It is with this kind of an advance that we have had the greatest difficulty in coping in the past and it is evident that the Soviet Union had hoped to employ the same techniques throughout a war-devastated Germany. The chosen instruments were the satellite government in the Eastern Zone and the German Communist party. Both have failed miserably in their mission. In the Eastern Zone, the Berlin riots of 1953 suggest that the very existence of the satellite government depends upon Russian bayonets. In Western Germany, the remarkable recovery from the war appears to make the area increasingly invulnerable to Communist tactics of erosion and infiltration.

There is, however, in the East German Communist army and police still another potential instrument of Communist advance. It is in deterring a sudden coup by this force of 250,000 armed men in a Korean-type internal aggression that the proposed West German divisions can be most effective.

In this limited sense and in linking the German divisions with NATO, the London-Paris accords add to the military bulwark against further Communist penetration of Western Europe. Important as this contribution may be, however, it is not the principal promise of the agreements.

I began my remarks tonight by stressing that the issue facing Western Europe and in a broader sense other free nations is the positive challenge of unity. It is in this connection that the London-Paris accords may eventually make their most significant contribution. The agreements of course must first be ratified. Ratification alone, however, is not enough. They must be carried out with some sense of the coöperation and national forbearance that characterized their formation.

If these conditions are fulfilled, then the accords can and should lead first toward a unified Germany. No issue in Germany is more compelling. It has so far been held in reasonable perspective by the leadership of Chancellor Adenauer. Even during the difficult months of drift on the ratification of E.D.C., Adenauer insisted that a united Germany before firm ties had been established with Western Europe could mean only a satellite Germany. He stood firm in the face of mounting political pressure on the principle of first things first.

Once the London-Paris agreements have been ratified, however, it may be expected that the demands for unification will grow rapidly inside Germany. Unification will inevitably become the primary objective of any sovereign German government. It is a valid objective, as valid today as in the days of Bismarck. The reasons why it must be sought are sound in a political, economic and moral sense. Until it is achieved, there can be little hope of stability in Europe.

What is of primary concern to Western Europe and to this country is the way unification is pursued. We have a right to insist that the Germans seek their unification peacefully and patiently, with full recognition that what is at stake is not only their own future but the future of the entire continent;

in short, that they continue to follow the course which has been set by Adenauer.

So long as they do so, the West Germans warrant the full support of Western Europe and ourselves in their quest for unification with their eastern provinces. Nor is it sufficient in our policies to pay lip service to the principle of unification. It must be clear to the German people that the Western nations are prepared to go far in settling this issue with the Soviet Union. All proposals should be explored which offer promise that a unified Germany shall be a peaceful and independent Germany able to participate in the common development of Europe and to coöperate with free nations everywhere.

So far the Soviet Union has shown no inclination to negotiate German unification on these terms. This does not mean that the objective must be abandoned. Nor does it mean that the only alternative to its abandonment is a Western equivalent of the Communist war of "liberation" to regain the eastern provinces.

It is possible that the Soviet Union may be impelled to accept genuine German unification by a rising tide of public insistence in Germany and by other pressures. A development of this kind, however, will not come easily. It is likely to appear only if the policy of the West German government and the Western Powers with respect to unification is just, restrained and compassionate.

In the pursuit of such a policy, time can be on the side of the free nations. There are indications that the weight of disunity, disillusion and discontent is being felt on the Communist side. That this is so is suggested, for example, by the Berlin rioting last year and the incessant flow of refugees. So long as a high rate of economic, political and social progress is maintained in the Western Zone, it is bound to act as an attraction to those Germans living in the East, and the difficulties of the Soviet Union in maintaining totalitarian control over them will multiply. A situation could develop where the Soviet pattern of advance into weakness may operate in reverse. The Russians may be compelled to withdraw from the Eastern Zone and permit unification, not because of military pressure from outside, but because of the crumbling of their position from within.

It is possible that the Russians may risk the resurgence of

German militarism rather than face the inevitable prospect of a unified Germany integrated with Western Europe. If they choose this course, they are in a position to make important economic, territorial and other concessions to the Germans. Moreover, they could withdraw their occupation forces and expand the nucleus of German militarism which already exists in the East German Communist army. They could, in other words, offer Germany a unification with real nationalistic inducements and ask in return only that the Germans separate themselves from Western Europe.

I do not know if a Soviet attempt of this kind to split the Western nations and lay the groundwork for a new world conflict would succeed. It would depend, I suppose, ostensibly on the German people since they would make the final decision for unity or chaos, for peace or ultimate war. The decision, however, would not be made in a vacuum. It would be governed by many factors, none more significant than the London-Paris accords.

That is a principal reason why these agreements must be something more than an ingenious device to create twelve German divisions against a Soviet advance. They must begin at once to fulfill their larger promise, the promise of progressive European integration within the larger grouping of the North Atlantic Community.

Under the agreements immediate progress in this direction will have been made in the integration of the military power of the Western European nations and of the members of NATO. It is essential to perfect these military relationships but that alone is not enough. The hope of free men is not only to die together in the defense of freedom if that should be necessary, but to live together in its light.

In this sense, the challenge of unity is much broader than integrated military defense. It means a deepening of the integration of the Western European nations in the economic field, in the political field, in all matters in which governments can better serve their citizens by working together rather than separately. It means, above all, a willingness to face common problems together and to work together with national restraint in their solution. The need for an approach of this kind is urgent in Western Europe; it is necessary throughout the Western

world; it is desirable with all nations who are free to coöperate wherever they may be on the globe.

On my return from Europe several months ago, I reported to the Foreign Relations Committee of the Senate that the immediate need was for a series of special economic conferences which might serve to define boldly and clearly the economic problems which must be overcome if the nations of Western Europe and the North Atlantic Community are to maintain sound economies, and to lay the groundwork for their solution. I reiterate that view tonight. In doing so, I am aware that most free nations are in a relatively prosperous state, but that is precisely the time to act to avert a collapse. And an economic collapse could be the shoal on which the hope for unity would flounder.

What, then, if this challenge of unity is met? Where does it lead? If this challenge is met we shall see, in my opinion, an end to the erosion of Western civilization. We shall see a vast growth in the strength of free nations built not primarily on a military base, but on the power of their creative accomplishments and the power of their ideals to inspire the faith of mankind. We shall see a positive but patient leadership in the world, a leadership of free men who will not concede that any part of the human race, regardless of its present status, is forever beyond the reach of liberty. We shall see, in short, the beginning of a new cycle, and I trust a peaceful cycle, in the never-ending struggle between tyranny and freedom. This cycle will belong to freedom. [Applause]

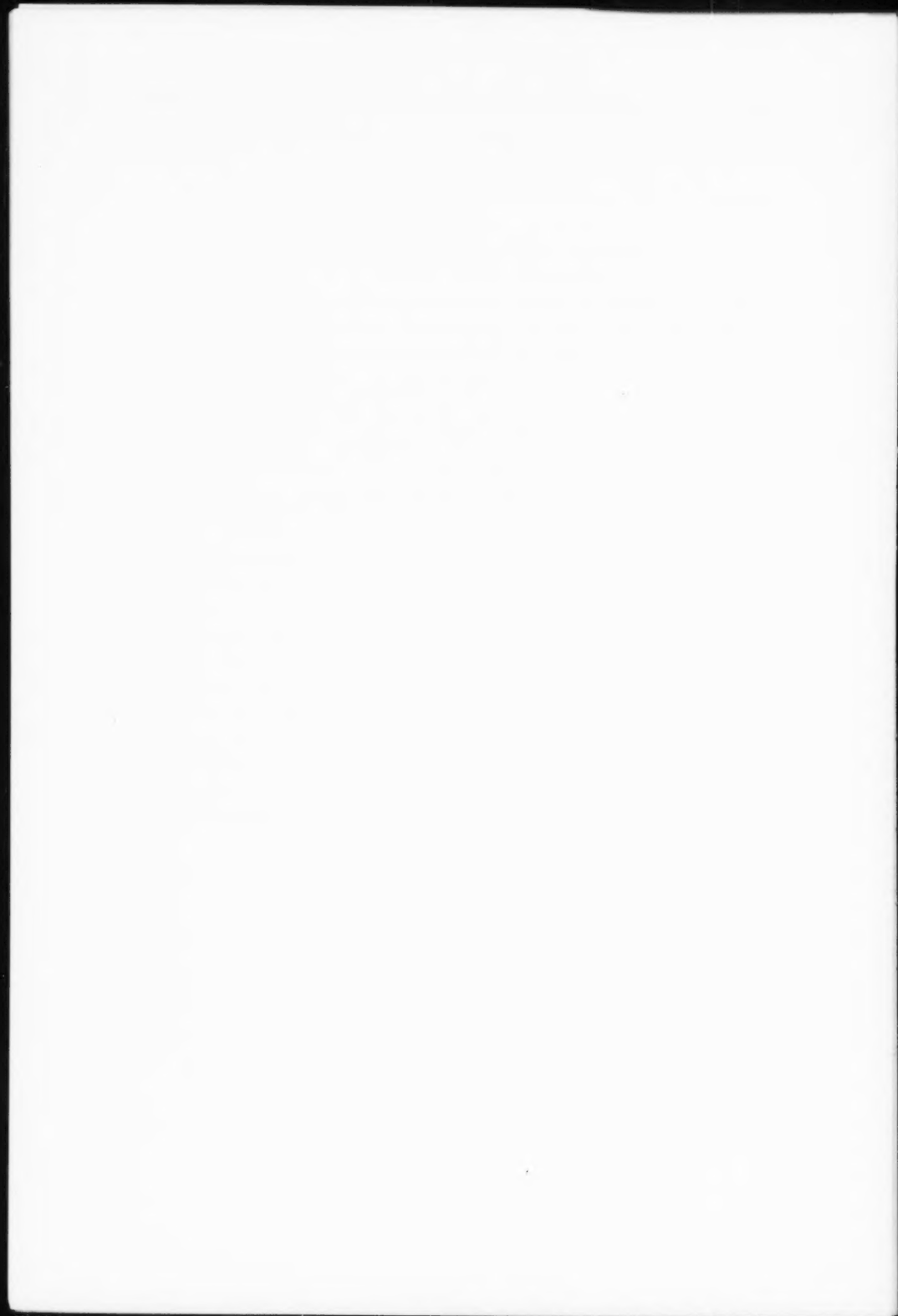
REMARKS BY THE CHAIRMAN

DR. KIRK: Thank you very much, Senator Mansfield.

I hope you will permit me to say that all of us would rest easier if we felt that all your colleagues in the Senate viewed these problems of world affairs with the same degree of detachment and perspective. [Applause]

Our warmest thanks indeed go to our speakers tonight who have given us an extraordinarily illuminating insight into the problems which confront our own situation on both sides of the globe. These issues will not be settled today or tomorrow, not even in the lifetimes of any of us here. But they are issues which will be settled because free men admit of no final defeat.

Good night! [Applause]



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